



REPORT

OF THE

COMPTROLLER

AND

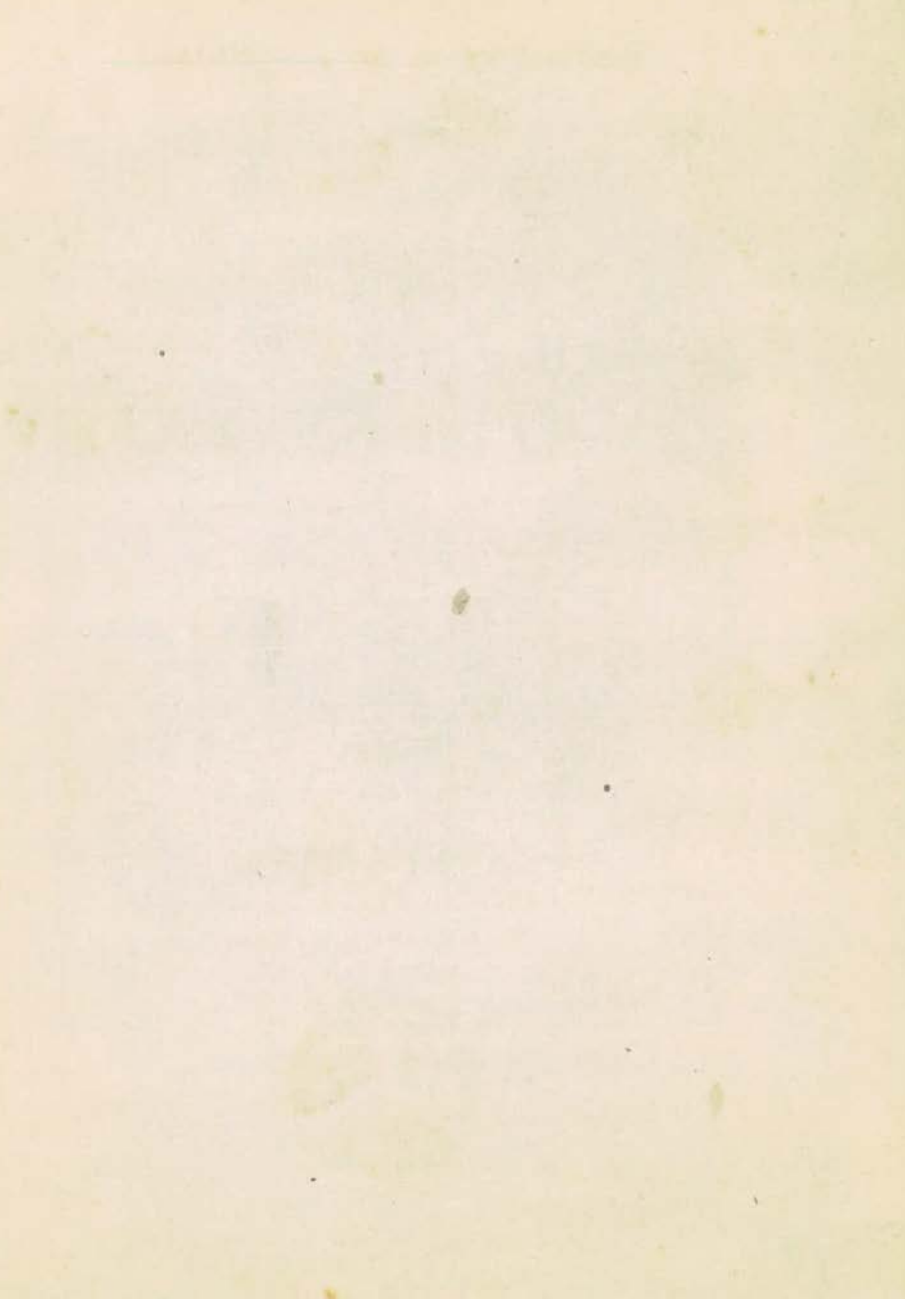
AUDITOR GENERAL OF INDIA

**for the year ended 31 March
1988**

(REVENUE RECEIPTS)

(No. 5 of 1989)

GOVERNMENT OF UTTAR PRADESH



E R R A T A

Report of the Comptroller & Auditor General of India for the year ended 31st March 1988
(Revenue Receipts) (No.5 of 1989) Government of Uttar Pradesh

Page	Reference to line from top/bottom	For	Read	Page	Reference to line from top/bottom	For	Read
xii	4th top	No.6 of 1989	No.5 of 1989	xiv	4th bottom	5.21 crores	5.81 crores
xiv	2nd bottom	9.27 lakhs	68.89 lakhs	xiv	2nd bottom	out which	out of which
xiv	1st bottom	February 1989	April 1989	5	8th top	Forestry wild life	Forestry and wild life
5	8th top	Major Medium	Major and Medium	5	9th top	Medium Irrigation Minor Irrigation	Medium Irrigation and Minor Irrigation
6	6th top	wile	wild	7	11th top	1553.59	1656.59
8	11th top	94.89	94.87	18	9th bottom	detacted	detected
25	15th top	other states	other stages	27	3rd top	2089	2098
30	5th bottom	Supplies	Supplies	34	13th bottom	indinity	identity
36	14th bottom	not traced	not be traced	37	14th bottom	Contrctors	Contractors
37	5th bottom	ordrs	orders	39	9th bottom	Januaryd	January
46	8th top	susbject	subject	47	5th top	railway wasg- ons	railway wagons
48	14th top	procelain	porcelain	51	10th bottom	beiong	being
53	13th bottom	deosit	deposit	56	7th top	was	were
56	10th bottom	additionald	additional	57	1st top	dof	of
62	1st top	susbject	subject	64	6th bottom	minmum	minimum
66	9th bottom	if	of	75	6th top	of dealer	of a dealer
77	8th top	separetely	separately	78	16th top	Rs.8,47,395	Rs.3,47,395
83	1st top	suply	supply	84	3rd bottom	susperintendents	superintendents
84	6th bottom	Excuse	Excise	85	9th top	concerned	concerned
91	6th bottom	Sugarcane	Sugarcane crushed	93	14th bottom	Furhter	Further
94	Column 4	91.39	81.39	94	Column 4	76.17	78.17
94	Total of column 6	523.74	524.34	100	12th top	permises	premises
102	1st bottom	tonnes sugarcane	tonnes of sugar- cane	104	5th bottom	Account	Accounts
105	8th bottom	Not printed	Production of Alcohol from molasses	106	11th top	pruposes	purposes
107	12th top	were as	whereas	107	6th bottom	glut	a glut
108	5th bottom	sample	samples	111	13th bottom	spsirit	spirit
114	17th top	3,13,930.0	3,13,930.9	126	12th top	sampsles	samples
129	3rd top	throught	through	131	1st bottom	lum sum	lump sum
137	1st top	contined	continued	137	15th top	February 19897	February 1987
143	8th bottom	Rs.73906	Rs.73908	150	1st top	Sub-regon	Sub-region
150	11th bottom	sub-Regional	sub-Regional	159	4th bottom	High Cosurt	High Court
159	17th bottom	Strasa	Sirsa	173	15th top	land revenue	annual land revenue
173	5th bottom	sdout	out	174	13th bottom	clamity	calamity
187	8th bottom	Rs.40.929	Rs.40,929	188	6th top	1987-88 revealed	1987-88, revealed
189	14th top	diametre	diameter	194	7th bottom	Rs.24.26 lakhs	Rs.24.28 lakhs
196	7th bottom	No. of columns not printed	(1)(2)(3)(4)(5)	196	5th bottom	50 to 192	50 to 142
197	14th bottom	reised	raised	198	11th bottom	reocvered	recovered
207	6th bottom	leasees	lessees	208	10th bottom	Engnieer	Engineer
209	16th top	mothod	method	220	6th top	revealed	revealed
222	12th bottom	co-operatove	co-operative	228	3rd bottom	not printed	In crores of rupees
229	13th bottom	Inssurance	Insurance	232	4th bottom	responsisble	responsible
234	6th bottom	responsisble	responsible	236	3rd top	Co-oerative	Co-operative
236	6th bottom	Director	Directorate	239	7th top	imcomplete	incomplete
242	14th top	9.19.7	9.18.7	246	7th top	10½ per annum	10½per cent per annum
248	6th top	continously	continuously	254	13th bottom	insert after 'were'	due towards interest, against which Rs.3.71 crores were
256	12th top	Dehli	Delhi				

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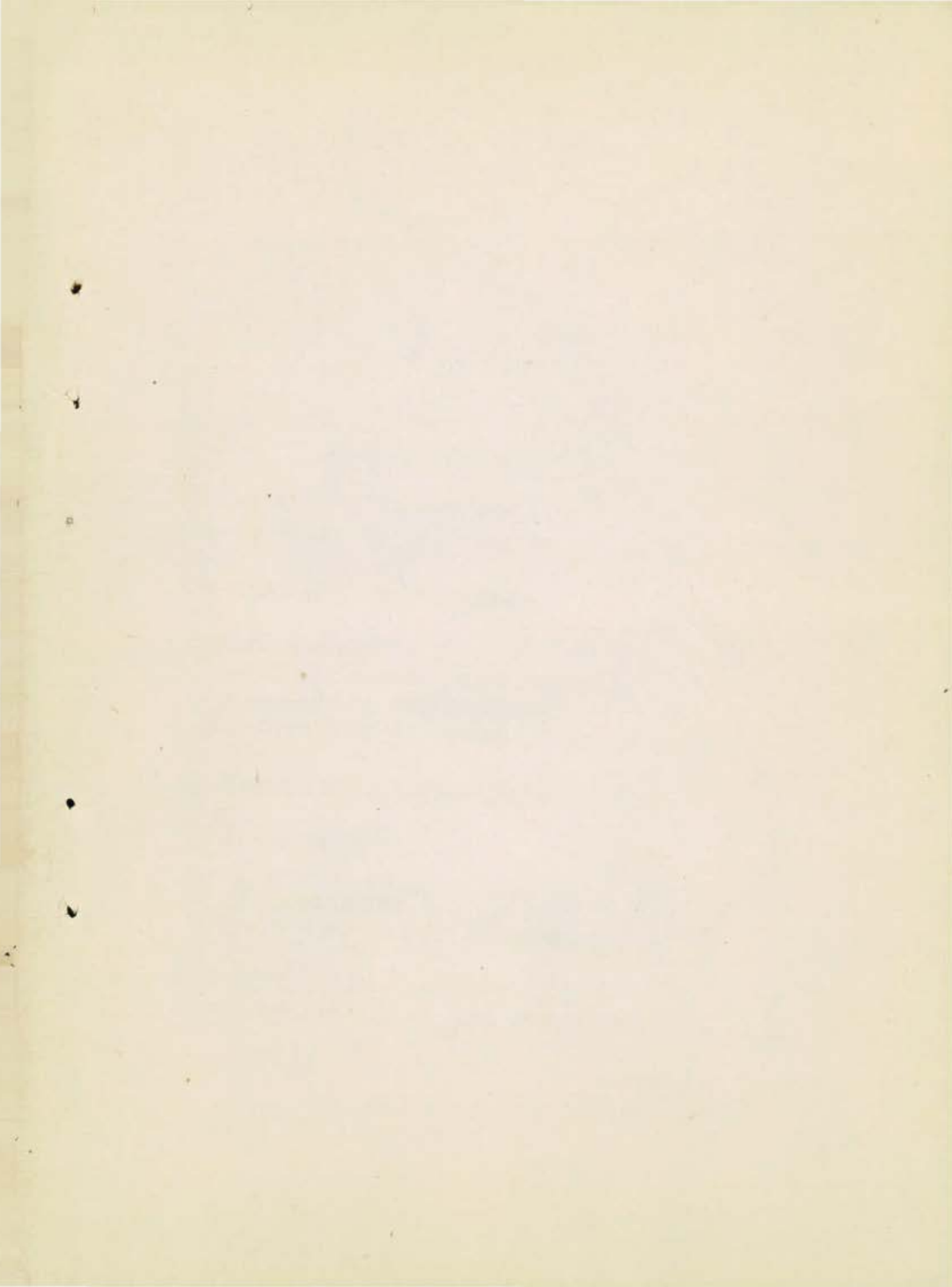
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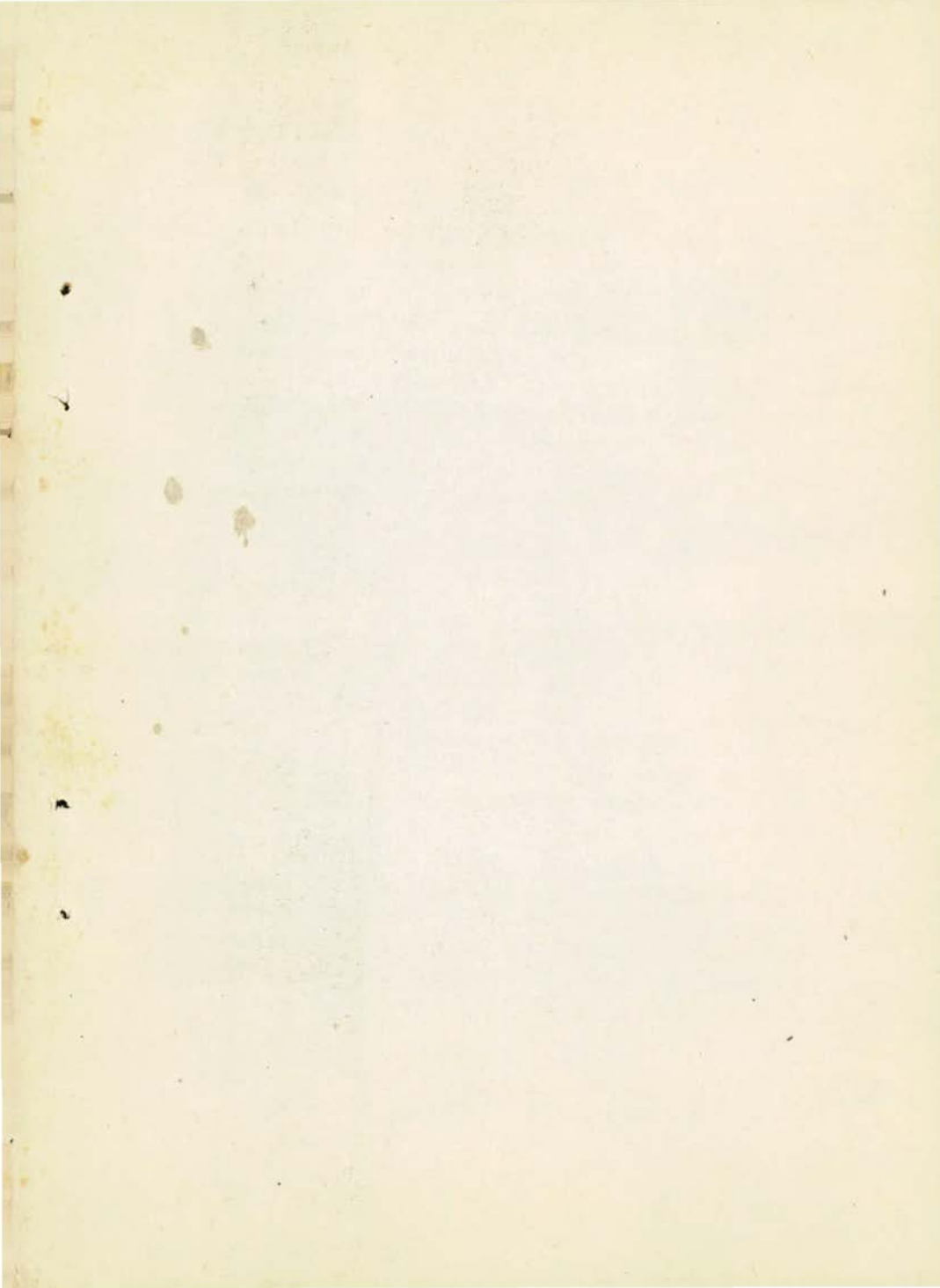


PREFATORY REMARKS

The Audit Report on Revenue Receipts of the Government of Uttar Pradesh for the year 1987-88 is presented in this separate volume (No. 6 of 1989). The material in the Report has been arranged in the following order :

(i) Chapter 1 deals with trend of revenue receipts, classifying them broadly under tax revenue and non-tax revenue. The variations between the Budget estimates and actuals in respect of the principal heads of revenue, the position of arrears of revenue etc. are also discussed in this chapter.

(ii) Chapters 2 to 9 set out certain cases and points of interest which came to notice during the audit of Sales Tax, State Excise, Taxes on Vehicles, Goods and Passengers, Stamp Duties and Registration fees, Land Revenue, Electricity Duty, Tax on purchase of Sugarcane, Entertainment and Betting Tax and Non-Tax Receipts.



OVERVIEW

An overview of important and interesting points included in the Report is given below:

1. General

(i) The total revenue receipts of Government of Uttar Pradesh during the year 1987-88 amounted to Rs.5331.93 crores. This comprised Rs.1988.66 crores tax revenue and Rs.631.39 crores non-tax revenue. The balance Rs.2711.88 crores represented receipts from Government of India (share of divisible Union Taxes : Rs.1786.79 crores and grants-in-aid : Rs.925.09 crores). (Para 1.2)

(ii) At the end of 1987-88, 7,22,428 sales tax cases were pending for assessments. Of the 3,22,589 cases assessed during 1987-88, assessment of 1,29,366 cases (40 per cent) was made during the last quarter of the year (Para 1.5 (a)&(b)).

(iii) The uncollected revenue at the end of 1987-88 amounted to Rs.786.81 crores under Sales Tax; Rs.36.71 crores under Land Revenue, Rs.23.99 crores under Electricity Duty and Rs.10.20 crores under

(xiv)

Tax on Purchase of Sugarcane. (Para 1.6)

(iv) At the end of June 1988, 2,136 Audit Inspection Reports (issued upto December 1987) containing 5,302 objections, involving revenue of Rs.51.91 crores, were outstanding for settlement with various departments. In respect of 443 inspection reports, even first replies had not been received from the departments. (Para 1.8)

(v) Test audit conducted during 1987-88 revealed under-assessments and losses of revenue amounting to Rs.11.37 crores. These relate to Sales Tax (Rs.2.02 crores), State Excise (Rs.0.91 crore), Taxes on Vehicles, Goods and Passengers (Rs.0.68 crore), Stamp Duty and Registration Fees (Rs.0.20 crore), Land Revenue (Rs.0.07 crore), Other Tax Receipts (Rs.0.23 crore), Forest Receipts (Rs.5.53 crores) and Other Departmental Receipts (Rs.1.73 crores).

(vi) This report includes representative cases of non-levy/short levy of tax, duty fee, royalty, interest, penalty etc. and findings of two reviews, involving financial effect of Rs.44.59 crores, noticed during test check in 1987-88 and earlier years. Of this, underassessments of Rs.5.21 crores were accepted by the departments, out which Rs.9.27 lakhs were recovered till February 1989.

2. Sales Tax

(i) In case of a dealer irregular grant of concessional rate of tax on purchase of chemicals worth Rs.35.37 lakhs during the years 1982-83 to 1984-85 resulted in loss of revenue amounting to Rs.1.41 lakhs. (Para 2.2(a))

(ii) In case of a Government undertaking though turnover exceeded Rs.two lakhs during the year 1975-76, additional tax amounting to Rs.1.60 lakhs was not levied. (Para 2.8(i))

(iii) In case of three dealers manufacturing cycle seat leather top irregular allowance of tax-free purchases of raw material resulted in loss of revenue amounting to Rs.2.42 lakhs. (Para 2.11 (g))

(iv) A dealer manufacturing asbestos sheets purchased raw material at concessional rate of tax and transferred manufactured goods worth Rs.39.45 lakhs outside the State on consignment basis in violation of the provisions for availing the above concessional rate of tax. This warranted a levy of penalty up to Rs.9.46 lakhs but was not imposed. (Para 2.12 (a)(ii))

(v) A manufacturer of transformers

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purchased copper wire worth Rs.29.40 lakhs at concessional rate, but utilised the same in repairs of transformers. The dealer was liable to pay a minimum penalty of Rs.2.35 lakhs for misuse of the goods, -but department failed to detect the irregularity. (Para 2.12(a)(iii))

(vi) A dealer purchased raw material (iron and steel) tax-free to the tune of Rs.25.45 lakhs. On cross-verification in audit, it was noticed that purchases worth Rs.23.18 lakhs were not accounted in their books. For this the dealer was liable to pay penalty of Rs.1.39 lakhs, but the department failed to detect the suppression of turnover. (Para 2.12(b))

(vii) A dealer imported fertilizers worth Rs.7.91 lakhs from outside the State in May 1985 for which he had to submit declaration forms in duplicate to the assessing officer concerned before taking delivery. He, however, submitted the forms only in February 1986. For not submitting declarations before taking delivery penalty upto Rs.3.20 lakhs could be imposed by the assessing officer but no penalty was imposed. (Para 2.12(c)

3. State Excise

(i) A review on the 'control over

production and distribution of molasses in the State' revealed the following irregularities :

(a) Controller of Molasses had no effective control over the exit of molasses from sugar factories and return of verified gate passes from concerned distilleries. In eight sugar factories, 30 per cent of the gate passes (i.e. 6.737 numbers) issued during 1981-82 to 1986-87, were not received back duly verified. (Para 3.2.5.1)

(b) On an average, only 65 per cent of molasses available for distribution was used in the manufacture of spirit and power alcohol during 1982-83 to 1986-87. Due to improper storage of molasses, 53.56 lakh quintals of molasses became unfit for distillation. (Para 3.2.6.1)

(c) 11.83 lakh quintals of molasses was declared unfit for distillation or drained out or removed being below grade during 1986-87 which could have fetched Rs.1.40 crores by way of Export pass Fee on industrial alcohol obtained from its distillation. (Para 3.2.6.2(a))

(d) 10 factories had not deposited Rs.30.47 lakhs in the Molasses Fund, created for catering to molasses storage facilities, during the years 1974-75 to

1986-87. (Para 3.2.6.2(f)(i))

(e) Molasses produced by khandsari units which had the potential of doubling the State's production of alcohol, has not been so far brought under the control of the Excise Commissioner, Uttar Pradesh and ex-officio Controller of Molasses of Uttar Pradesh. (Para 3.2.7)

(f) As compared to installed capacity of distilleries, utilisation ranged between 40 to 53 per cent during 1981-82 and 1986-87. (Para 3.2.8.1(i))

(g) Analysis of samples of molasses utilised by distilleries during 1982-83 to 1986-87 revealed that 199.92 lakh alcoholic litres of spirit were produced short. This resulted in potential loss of excise duty of Rs.13.49 crores. No penal action was initiated against defaulting units for less production. (Para 3.2.8.3)

(ii) Incorrect categorisation of 'malt plain spirit' as Indian made foreign liquor instead of as country liquor resulted in short realisation of export duty to the extent of Rs.16.22 lakhs during May 1986 to June 1987. (Para 3.3(a) & (b))

(iii) Interest amounting to Rs.1.25 lakhs was not realised for belated payments of

excise dues. (Para 3.8(i))

4. Taxes on Vehicles, Goods and Passengers

(i) In the Offices of the Transport Commissioner, Lucknow, four Regional Transport Officers and nine Sub-Regional Transport Officers, realisation of fee at pre-revised rates from 31st March 1987 to 28th July 1987 resulted in short realisation of fees amounting to Rs.3.35 lakhs. (Para 4.2)

(ii) The private operators of sixteen vehicles, plying their vehicles on contract with the Indian Telephone Industries, Rae Bareli between September 1986 and February 1987, neither submitted any returns for the aforesaid period nor paid passenger tax on the basis of lump sum receipts (Rs.10.92 lakhs) paid by the Indian Telephone Industries Ltd., Rae Bareli. The department also did not take any action for realisation of passenger tax. The tax not realised amounted to Rs.1.83 lakhs. (Para 4.4)

(iii) Although fare for city buses was revised by the Government in February 1986, it was implemented by the Transport Commissioner only in December 1986, leading to loss of passenger tax amounting

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to Rs.1.37 lakhs in two regions alone.
(Para4.6)

5. Stamp Duties and Registration Fees

Due to undervaluation of properties, stamp duty short levied amounted to Rs.4.46 lakhs in 23 cases.
(Para 5.2(a) & (b))

6. Other Tax Receipts

(i) The Fertiliser Corporation of India at Gorakhpur did not pay electricity duty amounting to Rs.2.03 crores as at the end of March 1987. For non-payment of electricity duty within the due date, the licence holder was liable to pay penal interest amounting to Rs.34.44 lakhs, calculated upto 31st July 1987. (Para 7.2)

(ii) A unit of the U.P.State Cement Corporation, Mirzapur paid electricity duty at the rate of 3 paise per unit on 4,62,55,235 units consumed during January 1987 to July 1987, instead of at the correct rate of 6 paise per unit. Electricity duty short paid amounted to Rs.13.88 lakhs.
(Para 7.3)

(iii) 19 public video owners were issued licences for various periods between December 1983 and July 1987.

Entertainment tax amounting to Rs.9.62 lakhs was leviable for shows held during the said period. However, the licensees deposited Rs.1.87 lakhs only. The short deposit of tax of Rs.7.75 lakhs remained undetected by the department. (Para 7.6)

7. Forest Receipts

(i) Adoption of quality class volume table, in place of diameter class volume table without suitably revising the rates per cubic metre resulted in less realisation of royalty of Rs.374.44 lakhs in two divisions alone during the period between 1983-84 and 1985-86. (Para 8.2)

(ii) In one division, value of fuel chattas and sal ballies were omitted to be included while determining the average royalty rate. This resulted in short realisation of royalty amounting to Rs.59.12 lakhs during the year 1982-83. (Para 8.3(a))

(iii) In one division, work in lots No.49 to 116 of 1983-84 was actually undertaken by the Forest Corporation during 1984-85 but the rates of royalty fixed for 1983-84 were applied which was incorrect and resulted in short realisation of royalty of Rs.14.25 lakhs. (Para 8.3(b))

(iv) Late fee amounting to Rs.47.32 lakhs was leviable for default in payment of royalty by the Forest Corporation in four divisions for various spells during 1982-83 to 1985-86, but no late fee was charged. (Para 8.4)

8. Other Departmental Receipts

(i) In eight irrigation divisions, 4,426 cases of unauthorised irrigation of 16,510.14 acres of land were reported between September 1983 and December 1987. The punitive charges involved in these cases amounted to Rs.17.57 lakhs but the cases were not investigated and finalised by the department. (Para 9.2)

(ii) In 17 irrigation divisions, on 46,353 agreements executed between 20th February 1982 and October 1987, no stamp duty was levied. This resulted in loss of revenue to the tune of Rs.2.74 lakhs. (Para 9.3)

(iii) In five public works divisions, stamp duty in respect of 32 lease agreements executed by the department, had not been realised on the basis of premium, which resulted in short realisation of stamp duty amounting to Rs.4.85 lakhs. (Para 9.7)

(iv) In two Divisions, 20,978 serviceable empty drums were sold in auction at much lower rates than that fixed by the Chief Engineer P.W.D. This resulted in loss of revenue amounting to Rs.3.12 lakhs. (Para 9.8)

(v) As per norms fixed by Director of Agriculture, variations between the estimated and actual farm produce should not be more than 10 per cent. Any loss due to variation in excess of 10 per cent is recoverable from the Farm Superintendent. In one District Agriculture Office, the variation between estimated and actual produce in five State owned farms was in excess of permissible limit of 10 per cent but no action was taken against the Farm Superintendent for loss of revenue of Rs.5.37 lakhs for shortfall in production in excess of the permissible limit. (Para 9.11)

(vi) In six District Agriculture Offices, subsidy had been allowed on sale of fertilizer even after the date (3rd February 1986) it was withdrawn by Government. This resulted in irregular grant of subsidy amounting to Rs.3.76 lakhs. (Para 9.12)

(vii) In the offices of 23 Assistant Registrars of cooperative societies, 10 per

cent collection charges amounting to Rs.340.19 lakhs, recovered during 1981-82 to 1985-86 under the Uttar Pradesh Cooperative Society Collection Fund Regulations, 1982 (framed by the Registrar), were not credited to Government account but kept in a separate bank account pending decision to be taken by the State Government/Registrar Coop. Societies about the head of account to which the collection charges were to be credited. The authority under which these regulations were framed by the Registrar was not ascertainable. (Para 9.14)

(viii) During 1986-87, District Supply Officer, Farrukhabad issued licences for purchase of coal to 47 brick kiln owners without ensuring realisation of application fee and royalty amounting to Rs.1.50 lakhs realisable from them. In Aligarh district, during April 1986 to December 1986, Rs.2.15 lakhs only were deposited as application fee and royalty by 149 brick kiln owners against Rs.6.26 lakhs due from them. (Para 9.17(i) & (iii))

(ix) Review on the 'recoveries of interest on loans and advances' granted to departmental commercial undertakings, Government Companies and Corporations,

local bodies, Co-operative Societies and other persons by Government in the Co-operation, Industries and Urban Development Departments revealed the following :

(a) Overdue interest amounting to Rs.1.41 crores, on a loan of Rs.1.13 crores sanctioned to a Corporation during March 1971 to March 1974, was neither paid nor demanded by the Director of Industries. (Para 9.18.5(iii))

(b) Three loanees paid back the amount of loans (without utilising) after more than a year, it was withdrawn. Interest amounting to Rs.1.10 crores accrued, but it was neither paid nor demanded. (Para 9.18.6(i))

(c) Interest-free loans amounting to Rs.16.54 crores sanctioned during 1958-59 to 1986-87 to Land Development Bank without inclusion of any penal clause in case of default in repayment of loans on due date, which, was in contradiction of financial rules. It was noticed that overdue instalments of loans rose from Rs.1.50 lakhs in 1969-70 to Rs.443.46 lakhs in 1986-87. (Para 9.18.8(c))

(d) In case of 16 loanees,

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interest/penal interest amounting to Rs.21.33 crores was due for overdue instalment of principal/interest, but it was not demanded by the department. (Para 9.18.11(i))

(c) No action was taken to recover interest amounting to Rs.2.48 crores due from private sugar factories. (Para 9.18.12(i))

CHAPTER 1

GENERAL

1.1. Trend of revenue receipts

The total revenue receipts of the Government of Uttar Pradesh for the year 1987-88 were Rs.5331.93 crores, against the anticipated receipts of Rs.4602.49 crores. The total receipts during the year registered an increase of 28 per cent over the receipts of 1986-87 (Rs.4171.64 crores) and an increase of 38 per cent over those of 1985-86 (Rs.3876.86 crores). Of the total receipts of Rs.5331.93 crores, revenue raised by the State Government amounted to Rs.2620.05 crores, of which Rs.1988.66 crores represented tax revenue and the balance, Rs.631.39 crores, non-tax revenue. Receipts from the Government of India amounted to Rs.2711.88 crores.

1.2. Analysis of revenue receipts

(a) General analysis

An analysis of the revenue receipts for the year 1987-88, alongside those for the preceding two years, is given below:

(2)

1985-86 1986-87 1987-88
(In crores of rupees)

I. Revenue raised
by the State
Government -

(a)Tax revenue	1291.41	1528.60	1988.66
(b)Non-tax revenue	523.90	502.11	631.39
Total	1815.31	2030.71	2620.05

II. Receipts from
the Government
of India -

(a)State's share of divisible Union taxes	1234.59	1427.61	1786.79
(b)Grants-in- aid	826.96	713.32	925.09*
Total	2061.55	2140.93	2711.88

III. Total receipts
of the State
(I+II)

3876.86 4171.64 5331.93

IV. Percentage of
I to III

47 49 49

* For details, please see Statement No.11--
Detailed Accounts of Revenue by Minor
Heads in the Finance Accounts of Government
of Uttar Pradesh 1987-88.

(3)

(b) Tax revenue raised by the State
Government

Receipts from tax revenue (Rs.1988.66 crores) during the year 1987-88 constituted 76 per cent of the State's own revenue receipts (Rs.2620.05 crores) and registered an increase of 30 per cent over the receipts of the previous year 1986-87, viz., Rs.1528.60 crores. Increases to the tune of Rs.83.50 crores were attributable to taxation changes introduced during 1986-87 and 1987-88.

An analysis of tax revenue for the year 1987-88 and for the preceding two years is given below:

Revenue Head	1985-86	1986-87	1987-88	Increase (+) or decrease (-) in 1987-88 with reference to 1986-87	
(1)	(2)	(3)	(4)	(5)	(6)
	(In crores of rupees)				
1. Other Taxes on Income and Expenditure	0.02	(+)	0.02 (100)
2. Land Revenue	27.92	29.48	35.75	(+)	6.27 (21)
3. Stamps and Registration	149.98	174.11	250.33	(+)	76.22 (44)
4. Taxes on Immovable Properties other than Agricultural Land	0.13	(+)	0.13 (100)

(4)

(1)	(2)	(3)	(4)	(5)
5. State Excise	173.67	228.11	494.15	(+)266.04 (117)
6. Sales Tax	628.23	716.28	799.42	(+) 83.14 (12)
7. Tax on Purchase of Sugarcane	23.78	38.51	37.38	(-) 1.13 (3)
8. Tax on Sale of Motor Spirits and Lubricants	82.26	102.11	117.23	(+) 15.12 (15)
9. Taxes on Vehicles	42.45	47.29	51.12	(+) 3.83 (8)
10. Taxes on Goods and Passengers	84.27	95.63	108.23	(+) 12.60 (13)
11. Taxes and Duties on Electricity	30.79	36.21	41.78	(+) 5.57 (15)
12. Other Taxes and Duties on Commod- ities and Services- Entertainment Tax	48.06	60.87	53.12	(-) 7.75 (13)
Total	1291.41	1528.60	1988.66	(+)460.06 (30)

(Figures within brackets in the last column denote percentage)

Except under the heads "Tax on Purchase of Sugarcane" and "Other Taxes and Duties on Commodities and Services", receipts under the remaining heads registered

(5)

increases between 8 per cent (Taxes on Vehicles) and 117 per cent (State Excise) in the year 1987-88, as compared to those of the previous year.

(c) Non-tax revenue of the State

Interest Receipts, Miscellaneous General Services, Education, Sports, Art and Culture, Forestry Wild Life, Major Medium Irrigation Minor Irrigation were the principal sources of non-tax revenue of the State.

Receipts from non-tax revenue (Rs.631.39 crores) during the year 1987-88 constituted 24 per cent of the State's own revenue receipts (Rs.2620.05 crores) and registered an increase of 26 per cent over the receipts of the previous year 1986-87 (Rs.502.11 crores).

An analysis of non-tax revenue for the year 1987-88 and for the preceding two years is given below:

Revenue Head	1985-86	1986-87	1987-88	Increase (+) or decrease (-) in 1987-88 with reference to 1986-87
(1)	(2)	(3)	(4)	(5)
(In crores of rupees)				
1. Interest Receipts	180.00	213.86	295.58	(+) 81.72 (38)
2. Miscellaneous General Services	57.00	48.17	66.60	(+) 18.43 (38)

(6)

	(1)	(2)	(3)	(4)	(5)
3. Education, Sports, Art and Culture		11.09	12.30	21.02	(+) 8.72 (70)
4. Forestry and Wild Life		55.95	78.99	100.80	(+) 21.81 (28)
5. Major and Medium Irrigation		107.01	44.42	17.16	(-) 27.26 (61)
6. Minor Irrigation		23.25	12.41	11.60	(-) 0.81 (6)
7. Others		89.60	91.96	118.63	(+) 26.67
Total		523.90	502.11	631.39	(+)129.28 (26)

(Figures within brackets in the last column denote percentage)

Receipts under the heads 'Interest Receipts', 'Miscellaneous General Services', 'Education, Sports, Art and Culture' and 'Forestry and Wild Life' during the year 1987-88 registered increase over the receipts of the previous year by 38, 38, 70 and 28 per cent respectively, while those under the heads 'Major and Medium Irrigation' and 'Minor Irrigation' went down by 61 and 6 per cent respectively.

Note- The figures of 1985-86 and 1986-87 at serial no.3 and 7 have undergone change due to rationalisation of the Head of Accounts from 1.4.1987.

1.3. Variations between Budget estimates and actuals

(a) The variations between Budget estimates and actuals of tax revenue and non-tax revenue during the year 1987-88 are given below:

	Budget estimates	Actuals	<u>Variation</u> Increase(+)/ shortfall(-)	Percentage of variation
	(In crores of rupees)			
A. Tax Revenue	1353.58	1988.66	(+)332.07	20
B. Non-tax revenue	526.12	631.39	(+)105.27	20

(b) The break-up of the variations under the principal heads of revenue is given below:

Revenue Head	Budget estimates	Actuals	<u>Variation</u> Increase(+)/ shortfall(-)	Percentage of variation
(1)	(2)	(3)	(4)	(5)
	(In crores of rupees)			
<u>A. Tax revenue</u>				
1. Land Revenue	34.43	35.75	(+) 1.32	4
2. Stamps and Registration	180.83	250.33	(+) 69.50	38
3. State Excise	291.90	494.15	(+)202.25	69
4. Sales Tax	784.10	799.42	(+) 15.32	2

(8)

	(1)	(2)	(3)	(4)	(5)
5. Tax on Sale of Motor Spirits and Lubricants	98.06	117.23	(+) 19.17	19	
6. Tax on Purchase of Sugarcane	26.54	37.38	(+) 10.84	40	
7. Taxes on Vehicles	50.13	51.12	(+) 0.99	2	
8. Taxes on Goods and Passengers	94.89	108.23	(+) 13.36	14	
9. Taxes and Duties on Electricity	35.91	41.78	(+) 5.87	16	
10. Other Taxes and Duties on Commodities and Services — Entertainment Tax	59.76	53.12	(-) 6.64	11	

B. Non-tax revenue

11. Interest Receipts	185.79	295.58	(+) 109.79	59
12. Miscella- neous General Services	50.73	66.50	(+) 15.87	31
13. Education, Sports, Art and Culture	23.97	21.02	(-) 2.95	12

(1)	(2)	(3)	(4)	(5)
14. Forestry and Wild Life	67.54	100.80	(+)33.26	49
15. Major and Medium Irrigation	62.29	17.16	(-)45.13	72
16. Minor Irrigation	17.93	11.60	(-) 6.33	35

Except under 'Land Revenue', 'Sales Tax' and 'Taxes on Vehicles', the variations were more than 10 per cent in each case which indicates lack of proper estimation in framing the budget proposals.

The actual receipts fell short of the budget estimates by Rs.61.05 crores under 'Other Taxes and Duties on Commodities and Services', 'Education, Sports, Art and Culture', 'Major and Medium Irrigation' and 'Minor Irrigation'. Receipts from 'Major and Medium Irrigation' alone fell short of the budget estimates by Rs.45.13 crores, i.e., by 72 per cent. On the other hand, receipts under the head 'State Excise' registered an increase of Rs.202.25 crores (69 per cent). Reasons for such wide variations have not been intimated by the departments/Government so far (April 1989).

1.4. Cost of collection

Expenditure incurred on collection of receipts under the principal heads of revenue during the three years 1985-86 to 1987-88 is given below:

Revenue Head	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection
(1)	(2)	(3)	(4)	(5)
(In crores of rupees)				
1. Land Revenue	1985-86	27.92	26.93	96*
	1986-87	29.48	27.89	95*
	1987-88	35.75	33.95	95*
2. Sales Tax	1985-86	628.23	14.12	2
	1986-87	716.28	14.74	2
	1987-88	799.42	17.50	2
3. Taxes on Vehicles	1985-86	42.45	1.17	3
	1986-87	47.29	1.28	3
	1987-88	51.12	1.72	3

* The Revenue Department also undertakes work of collection on behalf of other Government Departments-- separate figures for expenditure on collection of 'Land Revenue' not made available by the department.

(1)	(2)	(3)	(4)	(5)
4. Taxes on 1985-86	84.27	0.21	Negligible	
Goods 1986-87	95.63	0.94	1	
and 1987-88	108.23	0.28	Negligible	
Passengers				
5. Electric- 1985-86	30.79	0.67	2	
city 1986-87	36.21	0.74	2	
Duty 1987-88	41.78	0.91	2	
6. Other 1985-86	48.06	1.17	2	
Taxes 1986-87	60.87	2.85	5	
and				
Duties 1987-88	53.12	4.52	8	
on Comm-				
odities				
and				
Services-				
Entertain-				
ment Tax				

1.5. Performance of assessment work in Sales Tax Department

Under the U.P. Sales Tax Act, 1948, final assessment of a dealer in respect of an assessment year is required to be made on the expiry of that year. In cases where the assessing officer is unable to finalise the assessment soon after the expiry of the assessment year, he may complete the assessment at any time before the expiry of 4 years from the end of the concerned

(12)

assessment year. However, where a notice has been served upon the assessee within such 4 years, the assessment may be made within one year of the date of service of the notice even if the period of 4 years is thereby exceeded.

(a) The number of assessments due for completion and those finalised by the Sales Tax Department during the assessment years 1986-87 and 1987-88 together with the number of assessments pending finalisation at the end of March, as reported by the department, are indicated below:

	1986-87	1987-88
(i) <u>Number of assessments due for completion during the year</u>		
Pending cases	6,72,022*	7,41,316*
Current cases	2,81,007	2,94,697
Remand cases	8,632	9,004
Total	9,61,661*	10,45,017

* The figures of closing balance of 1985-86, viz., 6,72,000 (pending cases) have been revised by the department to 6,72,022. The opening balance of 1987-88 has been revised from 6,97,603 (closing balance of 1986-87) to 7,41,316. Addition of 43,713 cases was stated by the department to be due to inclusion of cases as a result of scrutiny of cases.

(ii) Number of assessments
completed during the
year

Pending cases	2,45,305	3,05,725
Current cases	13,296	11,234
Remand cases	5,457	5,630
Total	<u>2,64,058</u>	<u>3,22,589</u>

(iii) Number of assessments
pending finalisation
as on 31st March

Pending cases	4,26,717*	4,35,591
Current cases	2,67,711	2,83,463
Remand cases	3,175	3,374
Total	<u>6,97,603*</u>	<u>7,22,428</u>

(vi) Percentage of 27 31
disposal to the
number of assessments
due for completion(b) Flurry of assessments in the last
quarter of the year.

In both the years 1986-87 and 1987-88, bulk of the cases, involving huge tax effects, were finalised in the last quarter of those years, as shown below:

	1986-87		1987-88	
	Number of assess- ments finali- sed	Demands raised (In cro- res of rupees)	Number of assess- ments finali- sed	Demands raised (In cro- res of rupees)
April to December	1,26,874	173.63	1,93,223	161.20
January to March	1,37,184	190.01*	1,29,366	223.23E
Total	<u>2,64,058</u>	<u>363.64*</u>	<u>3,22,589</u>	<u>384.43E</u>

* Figures have been revised by the department.
E Provisional

**(c) Heavy incidence of finalisation of cases
at the fag end of the limitation period**

As shown below, assessment cases finalised during the years 1986-87 and 1987-88 included a high percentage of cases (71 per cent during 1986-87 and 66 per cent during 1987-88) that would have become time-barred, if not disposed of during the respective years.

Year during which cases disposed of	Assessment year to which cases pertained	Number of cases dis- posed of	Percentage
1986-87	Upto 1982-83	1,88,422	71
	1983-84	39,566	15

	1984-85	17,317	7
	1985-86	13,296	5
	Remand cases	5,457	2
	Total	<u>2,64,058</u>	
1987-88 Upto	1983-84	2,11,734	66
	1984-85	71,539	22
	1985-86	22,452	7
	1986-87	11,234	3
	Remand cases	5,630	2
	Total	<u>3,22,589</u>	

The tendency to finalise a large number of cases at the fag end of the limitation period is fraught with the risk of loss of revenue due to hurried assessments, inadequate scrutiny of records and dealers becoming insolvent or untraceable with the lapse of time. Further, delay in finalisation of assessment cases results in blocking revenue (additional demands raised during such assessments) for a period ranging from one to 4 years which not only affects the ways and means position of Government but also results in accrual of fortuitous benefit to the dealers by way of interest.

(d) Increasing pendency of assessment cases

As against the 6,97,603 assessment cases pending at the end of 31st March 1987, 7,22,428 assessment cases were pending at the end of 31st March 1983. The year-wise

(16)

break-up of the assessments pending as on 31st March 1988 is given below:

Assessment year	Number of cases
Upto 1982-83	580
1983-84	17,809
1984-85	1,66,869
1985-86	2,50,333
1986-87	2,83,463
Cases remanded by Courts for re-assessment	3,374
Total	<u>7,22,428</u>

The heavy pendency of cases was mainly ascribed to non-deployment of adequate number of officers on the assessment work.

(e) Progress of finalisation of appeal and revision cases

Progress of finalisation of appeal and revision cases (Sales Tax) during the years 1986-87 and 1987-88, as reported by the department, is given below:

(i) Number of cases to be decided

	Appeal cases		Revision cases	
	1986-87	1987-88	1986-87	1987-88
Pending cases	37,064	41,747	59,852	57,114
Current cases	47,459	56,188	17,515	18,253
Total	<u>84,523</u>	<u>97,935</u>	<u>77,367</u>	<u>75,367</u>

(ii) Number of cases decided

	Appeal cases		Revision cases	
	1986-87	1987-88	1986-87	1987-88
Pending cases	28,692	32,921	10,857	10,241
Current cases	13,828	6,118	9,396	8,235
Total	<u>42,520</u>	<u>39,039</u>	<u>20,253</u>	<u>18,476</u>

(iii) Number of pending cases

	Appeal cases		Revision cases	
	1986-87	1987-88	1986-87	1987-88
Pending cases	8,116*	8,826	36,276	40,090
Current cases	33,631	50,070	20,838	16,801
Total	<u>41,747</u>	<u>58,896</u>	<u>57,114</u>	<u>56,891</u>

* Number of pending appeal cases as on 31st March 1987 worked out to 8,372. The difference of 256 cases was reported to be due to scrutiny of cases.

The year-wise break-up of the appeal and revision cases, pending as on 31st March 1988, was as under:

Year to which cases pertain	Pending as on 31st March 1988	
	Appeal cases	Revision cases
Upto 1980-81	133	1,246
1981-82	29	2,714
1982-83	171	5,026
1983-84	371	8,153
1984-85	1,185	10,682
1985-86	9,216	10,853
1986-87	30,274	14,247
1987-88	17,517	3,970
Total	<u>58,896</u>	<u>56,891</u>

(f) Progress of finalisation of cases of frauds and evasions

The table below indicates the position of cases of frauds and evasions detected, finalised and pending as on 31st March 1988, as intimated by the Sales Tax Department :

Cases pending at the beginning of 1987-88	Cases detected during the year	Cases finalised during the year (Amount raised)	Cases pending at the end of 1987-88
7,815	3,119	2,527 (Rs.25.03 crores)	8,407

The number of cases detected during the year was more than the cases decided during the year. As a result, the number of cases pending finalisation as on 31st March 1988 increased to 8,407 against 7,815 cases pending on 31st March 1987.

1.6. Uncollected revenue

Details of the arrears of revenue pending collection at the end of the year 1987-88 (as furnished by the departments), in respect of some receipt heads, are given below:

(i) **Sales Tax** - Rs.786.81 crores (provisional) remained uncollected as on 31st March 1988, as against Rs.638.06 crores (revised) on 31st March 1987. The year-wise details are given below:

Year	<u>Amount of arrears as on 31st March</u>		Amount of arrears recovered during
	1987	1988	1987-88
	(In crores of rupees)		
Upto 1983-84	153.14	142.76	10.38(7)
	(include arrears of Rs.23.28 crores more than 10 years old)	(include arrears of Rs.31.80 crores more than 10 years old)	
1984-85	49.72	41.64	8.08 (16)

(20)

1985-86	97.23	70.25	26.98 (28)
1986-87	337.97	205.93	132.04 (39)
1987-88	..	326.23	..
Total	<u>638.06</u>	<u>786.81</u>	<u>177.48</u> (28)

(Figures within brackets in the last column indicate percentages of recovery made.)

Thus, recoveries, made against the arrears upto 1983-84 (which include arrears more than 30 years old even), was insignificant, as compared to the recoveries of arrears for the subsequent years. Recoveries of arrears made during the year was only 28 per cent. On the other hand, arrears registered an increase of 55 per cent in the year 1987-88 over those as on 31st March 1987.

The arrears of Rs.786.81 crores as on 31st March 1988 were in the following stages of action:

Stage of action	Amount of arrears (In crores of rupees)
(a) Demands covered by recovery certificates (excluding those sent to other States)	208.92

(b)	Recovery stayed by	
	(i) Courts	98.99
	(ii) Government	16.11
(c)	Recovery held up due to	
	(i) rectification/review applications	18.28
	(ii) dealers becoming insolvent	2.20
(d)	Amount likely to be written off	39.35
(e)	Other reasons	402.96
	(i) Against Government departments; Rs.48.36 crores;	
	(ii) Against transporters: Rs.81.55 crores;	
	(iii) Recovery certificates sent to other States: Rs.19.71 crores;	
	(iv) Demands not finally determined for various administrative reasons: Rs.253.29 crores and	
	(v) Amount payable in instalments; Rs.0.05 crore	

Total 786.81

(ii) **Tax on Purchase of Sugarcane-** Rs.8.94 crores from sugar factories and Rs.1.26 crores (provisional) from khandsari units remained uncollected, as on 31st March 1988. Year-wise details are given below:

	Year	<u>Arrears pending collection from</u>	
		<u>Sugar</u> factories	<u>Khandsari</u> units
		(In crores of rupees)	
Upto	1981-82	6.68	0.81
	1982-83	1.22	0.22
	to		
	1984-85		
	1985-86	1.04	0.23
	to		
	1987-88		
	Total	<u>8.94</u>	<u>1.26</u>

(iii) **Land Revenue** - Out of Rs.36.71 crores pending collection as on 31st March 1988, recovery of Rs.15.12 crores had been suspended by Government.

Similarly, out of Rs.2.22 crores of land development tax pending collection as on 31st March 1988, recovery of Rs.0.73 crore had been suspended.

(iv) **Electricity Duty** - The arrears as on 31st March 1988 amounted to Rs. 23.99 crores, out of which Rs.15.78 crores were due from Renu Sagar Power Company, the recovery of which was stayed by the Hon'ble Supreme Court. Recovery of dues against ten sugar

factories (Rs.0.39 crore) was also stayed either by the Hon'ble Supreme Court or the High Court. The U.P.State Electricity Board was another major defaulter, the arrears in respect of which increased from Rs.4.34 crores as on 31st March 1987 to Rs.7.27 crores at the end of 1987-88, while dues from the appointed authorities (Central Government) and 'other persons' amounted to Rs.0.05 crore and Rs.0.50 crore respectively.

(v) **Entertainment Tax** - Rs.0.11 crore remained uncollected as on 31st March 1988. Year-wise details are given below:

	Year	Amount of arrears (In crore of rupees)
Upto	1983-84	0.03
	1984-85	0.02
	and	
	1985-86	
	1986-87	0.06
	and	
	1987-88	
	Total	<u>0.11</u>

The arrears were in the following stages of action:

Stage of action	Amount of arrears (In crore of rupees)
(i) Demands covered by recovery certificates	0.03

(ii) Recovery stayed by	
(a) High Court and Judicial Tribunals	0.04
(b) Government	0.02
(iii) Amount (pending against Narora Atomic Power Project, Bulandshahr) to be written off, the proposal for which was reported to be lying with Government	0.02
Total	<u>0.11</u>

(vi) **Forestry and Wild Life** - For supplies of timber and other forest produce to indentors, full payments are required to be made before delivery of material, and as such normally there should not be any arrears on this account. Yet, as per information furnished by the department, Rs.7.61 crores remained uncollected as on 31st March 1988. Year-wise details are given below:

Year		Amount of arrears (In crores of rupees)
Upto	1982-83	2.20
	1983-84	1.55
	1984-85	1.32
	to	
	1986-87	
	1987-88	2.54
Total		<u>7.61</u>

The arrears of Rs.7.61 crores were in the following stages of action:

Stage of action	Amount of arrears (In crores of rupees)
(a) Demands proposed to be adjusted against contractors' securities and material in the custody of the department	5.60
(b) Demands covered by recovery certificates	1.06
(c) Recovery stayed by Courts	0.65
(d) Amount likely to be written off	0.11
(e) Other states	0.19
Total	<u>7.61</u>

1.7. Writes off and remissions of revenue

Details of demands written off and remitted during 1987-88, as furnished by a few departments, are given below:

Department	Number of cases	Amount invol- ved (In crores of rupees)	Remarks
1. Finance- Sales Tax	Not available	0.04	Reasons not indica- ted

2. Revenue -			
Land	72	6.66	Natural
Revenue			calamities
(including			and non-
rent)			availabil-
			ity of the
			defaulters'
			whereabouts

1.8. Outstanding audit inspection reports

Under-assessments, financial irregularities and defects in maintenance of initial accounts noticed in audit, which are not settled on the spot, are communicated to the heads of offices and to the next higher departmental authorities through audit inspection reports. The more important irregularities are also reported to the heads of departments and Government. Half-yearly reports of audit objections, remaining outstanding for more than six months, are also sent to the heads of departments and Government for expediting their settlement. First replies to the audit inspection reports are required to be sent within one month of their receipt.

The number of inspection reports and audit objections issued up to December 1987, which were pending settlement by the departments as on 30th June 1988, alongside corresponding figures for the preceding two years, are given below:

	As at the end of June		
	1986	1987	1988
1. Number of outstanding inspection reports	1,892	2,089	2,136
2. Number of outstanding audit objections	4,994	5,219	5,302
3. Amount of receipt involved (in crores of rupees)	49.16	58.70	51.91

The table below indicates receipt-wise details of the inspection reports and audit objections issued up to December 1987 but remaining outstanding as on 30th June 1988:

Nature of receipt	Number of outstanding			Year to which the earliest report pertains
	Inspection reports	Audit objections	Amount of revenue involved (In crores of rupees)	
1. Land Revenue	215	419	1.59	1976-77
2. Stamps and Registration	534	1,073	1.92	1977-78

3. State Excise	215	.365	1.74	1980-81
4. Sales Tax	292	1,061	4.48	1980-81
5. Tax on Purchase of Sugar- cane	134	171	1.72	1975-76
6. Taxes on Vehicles, Goods and Passengers	132	608	2.20	1979-80
7. Electricity Duty	45	60	0.15	1981-82
8. Entertain- ment and Betting Tax	11	11	0.01	1985-86
9. Public Works	49	184	0.94	1983-84
10. Co-opera- tion	24	38	0.05	1983-84
11. Crop Husbandry	35	77	0.21	1982-83
12. Food and Civil Supplies	30	77	0.10	1983-84

13. Forestry and Wild Life	299	868	33.62	1975-76
14. Irrigation	71	290	3.18	1983-84
Total	<u>2,136</u>	<u>5,302</u>	<u>51.91</u>	

In respect of 443 audit inspection reports pertaining to the following receipt heads, even first replies had not been received from the departments :

<u>Number of audit inspection reports outstanding for</u>			
Three years and more (issued upto March 1985).	Two years and more but less than three years (issued during 1985-86)	Less than two years (issued during 1986-87 and 1987-88)	Total
1. Land Revenue	32	32
2. Stamps and Registration	24	24
3. State Excise	22	22

4. Sales Tax	1	13	84	98
5. Tax on Purchase of Sugarcane	2	1	5	8
6. Taxes on Vehicles, Goods and Passengers	54	54
7. Electricity Duty	14	14
8. Public Works	..	3	27	30
9. Co-operation	..	2	12	14
10. Crop Husbandry	..	3	15	18
11. Food and Civil Supplies	7	7
12. Forestry and Wild Life	19	6	45	70
13. Irrigation	20	7	25	52
Total	<u>42</u>	<u>35</u>	<u>366</u>	<u>443</u>

CHAPTER 2

SALES TAX

2.1. Results of Audit

Test check of the records of the Sales Tax Offices, conducted in audit during the year 1987-88, revealed under-assessments of tax and non-levy or short levy of interest and penalty amounting to Rs.201.87 lakhs in 725 cases, which broadly fall under the following categories :

	Number of cases	Amount (In lakhs of rupees)
1. Irregular grant of exemptions	120	47.02
2. Application of incorrect rates of tax	133	26.53
3. Non-levy or short levy of interest/ penalty	172	78.90
4. Incorrect classification of goods	21	3.50
5. Turnover escaping assessment and incorrect determination of turnover	53	6.61

(32)

6. Non-levy/short levy of additional tax	48	5.90
7. Arithmetical mistakes	51	11.46
8. Other irregularities	<u>127</u>	<u>21.95</u>
Total	<u>725</u>	<u>201.87</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

2.2. Irregular grant of concession

Section 4-B of the U.P. Sales Tax Act, 1948 provides a scheme for special relief in tax to manufacturers in purchases of raw materials for use in the manufacture of certain notified goods. Chemicals used in the manufacture of dressed hides from raw hides are not raw materials for the manufacture of dressed hides, in terms of the department's circular dated 27th October 1979, and the manufacturers of dressed hides were not to be allowed benefit of the concessional rate of tax for purchases of chemicals used in the manufacture of dressed hides and skins.

(a) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for manufacture of dressed hides, purchased chemicals worth Rs.35.37 lakhs during the years 1982-83, 1983-84 and 1984-85 at the concessional rate of tax, viz., 4 per cent, against declaration forms III-B. As the

chemicals were not raw material for manufacture of dressed hides, the dealer was not entitled to purchase the same at concessional rate. The irregular grant of concessional rate led to loss of revenue amounting to Rs.1.41 lakhs.

On the mistake being pointed out in audit (March 1987), the department stated (September 1987) that chemicals were raw material for manufacture of dressed hides. In view of the department's circular dated 27th October 1979, the reply of the department is not tenable.

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(b) In Sales Tax Circle, Kanpur, a dealer, holding recognition certificates for the manufacture of dressed hides, purchased babul bark (chemical) for Rs.6.73 lakhs during the year 1982-83 at the concessional rate of 4 per cent. Since chemicals (including babul bark) are not raw material for manufacture of dressed hides, the dealer was only entitled to purchase the same at the normal rate of tax of 8 per cent. The irregular concession granted to the dealer led to short levy of tax amounting to Rs.26,912.

On the omission being pointed out in audit (July 1987), the department stated (May 1988) that assessment had since been

revised and additional demand for Rs.26,912 raised. Report on recovery has not been received (April 1989).

The case was reported to Government in March 1988; their reply has not been received (April 1989).

2.3. Failure to observe prescribed procedure

Every dealer, who sells any goods the turnover of which is liable to sales tax under the U.P.Sales Tax Act, 1948, is required to obtain registration certificate under the Act. For grant of registration certificate, certain conditions and procedures have been laid down in the rules framed under the Act and the departmental manual which, inter alia, provide that the dealer will submit an application in prescribed form containing requisite details to the concerned Sales Tax Officer who, in turn, will verify the indinity of the dealer, his source of livelihood before commencement of the related business, financial position of the dealer, viz., capital invested in the business and its source, location of the fixed and floating assets with their value, whether the dealer has a bank account and whether the balance amount of the tax will be recoverable in the event of closure of the firm, the dealer's or his partner's local and permanent addresses and whether these addresses are complete and correct. After satisfying himself by spot enquiries, the Sales Tax Officer will grant

registration certificate within 30 days from the date of application. As per the U.P. Sales Tax Rules, 1948, fresh declaration forms, which enable the registered dealer to make purchases without payment of sales tax or at the concessional rate, shall not be issued to the dealer unless he has rendered an account of all forms previously issued to him.

In Sales Tax Circle, Gopi Ganj (district Varanasi), a dealer was granted registration certificate, effective from 18th May 1983, on furnishing surety of Rs.25,000 from two other dealers, but without making any spot survey or enquiry about his local and permanent addresses and his financial position. During the period from 2nd June 1983 to 4th January 1984, 29 declaration forms XXXI and 24'C' forms were issued to the dealer in seven instalments without ascertaining whether the forms issued to him on earlier occasions had been properly utilized. The dealer made heavy purchases of iron and steel against these forms. He submitted returns for May 1983 and September 1983, showing sales as nil. No action was taken in the matter upto 28th July 1985. On 29th July 1985, a notice was sent to the dealer through a process server. As no such dealer was available at the given address, the notice was pasted on the wall. The assessment was completed ex parte on 30 July 1985 and the turnover of sales for 1983-84 was determined at Rs.30 lakhs and tax amounting to Rs.1.20 lakhs was levied.

Demand notice was sent to the dealer on 9th September 1985. As whereabouts of the dealer could not be located, the demand notice could not be served, and on 30th November 1985 the registration granted to the dealer was cancelled.

Due to non-observance of the prescribed procedure regarding grant of registration certificate and issue of forms, Government were put to a loss of at least Rs.1.20 lakhs.

On the omission being pointed out in audit (November 1986), the department stated (August 1988) that security from two dealers was obtained and place of business was verified before granting registration certificate. However, the fact that the dealer could not be traced and recoveries could not be made even after a lapse of five years goes to show that permanent address of the dealer and his fixed and floating assets etc. were not ascertained as prescribed and fresh declaration forms were issued without ascertaining the utilisation of declaration forms issued on earlier occasion, and the department did not take prompt and timely action to safeguard the interests of State revenues.

The case was reported to Government in June 1988; their reply has not been received (April 1989).

2.4. Underassessment due to non-levy of tax at the point of sale by manufacturers

Under the U.P. Sales Tax Act, 1948, on sales of tendu leaves tax is leviable at the rate of 10 per cent at the point of sale by manufacturer or importer, with effect from 7th September 1981.

In Sales Tax Circle, Mirzapur, sales of tendu leaves for Rs.9.95 lakhs, made by two contractors during 1982-83, were exempted (October 1986 and December 1986) from levy of tax on the ground that tendu leaves were taxable in the hands of lessor, i.e., Forest Department of the State Government. The contractors collected tendu leaves from forests after payment of royalty to the Forest Department. As per Section 2(e-1) of the Act ibid, collection amounted to manufacture, and accordingly tax was leviable in the hands of the contractors they being manufacturers. The mistake led to underassessment of tax by Rs.99,510. As the tax was admittedly payable, interest at the rate of 2 per cent per month was also chargeable from the contractors for non-payment of tax in time.

On the omission being pointed out in audit (December 1987), the department stated (April 1988) that the assessment orders had been revised in both the cases and demand for Rs.99,510 raised. Report on recovery along with interest has not been received (April 1989).

The matter was reported to Government in August 1988; their reply has not been received (April 1989).

2.5. Misclassification of goods

(i) Under the U.P. Sales Tax Act, 1948, on sales of vanaspati including refined coconut oil, refined groundnut oil or margarine, tax was leviable at the rate of 9 per cent (inclusive of additional tax at the rate of one per cent) upto 6th September 1981 and at 10 per cent with effect from 7th September 1981 at the point of sale by manufacturer or importer.

In Sales Tax Circle, Lucknow, on sales of imported refined coconut oil amounting to Rs.7.09 lakhs and Rs.8.60 lakhs made by a dealer during the period from 1st April 1981 to 6th September 1981 and 7th September 1981 to 31st March 1982 respectively, tax was levied at the rate of 4 per cent for both the periods treating refined coconut oil as oils of all kinds, instead of at the correct rates of 9 per cent and 10 per cent. The misclassification led to underassessment of tax by Rs.87,061.

On this being pointed out in audit (December 1985), the department stated (August 1987) that the assessment orders had since been revised (June 1986) and additional demand for Rs.87,061 raised. On the tax due,

interest at the rate of 2 per cent per month was also chargeable upto the date of deposit of the tax. Report on recovery of tax and interest has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(ii) Under the U.P. Sales Tax Act, 1948, on sales of rubber sheets tax is leviable at the rate of 8 per cent (as applicable to unclassified items) at the point of sale by manufacturer or importer, with effect from 7th September 1981. Under the Central Sales Tax Act, 1956, tax on sales of rubber sheets (not supported by prescribed declaration in form C or D) is leviable at the rate of 10 per cent.

In Sales Tax Circle, Varanasi, a dealer sold self-manufactured rubber sheets for Rs.4.37 lakhs within the State and for Rs.5.40 lakhs in the course of inter-State trade (not covered by prescribed declaration in form C or D) during the year 1982-83. The sales were exempted (January 1987) from levy of tax, treating the goods as textiles of all kinds. The misclassification led to underassessment of tax by Rs.88,986. On the tax due, interest at the rate of 2 per cent per month was also chargeable up to the date of deposit of the tax.

On the mistake being pointed out in audit (July 1987), the department stated

(April 1988) that the assessment orders had since been revised and additional demand for Rs.88,986 raised. Report on recovery has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

2.6. Underassessment of Central sales tax

Under Section 8 of the Central Sales Tax Act, 1956, on inter-State sales of non-declared goods not supported by prescribed declarations tax is leviable at the rate of 10 per cent or the rate applicable to sale of such goods in the State, whichever is higher.

Under the U.P. Sales Tax Act, 1948, on sales of cups, medals and trophies tax was leviable at the rate of 5 per cent plus one per cent additional tax upto 6th September 1981 and at 6 per cent from 7th September 1981.

In Sales Tax Circle, Moradabad, a dealer made inter-State sales of cups, shields and trophies for Rs.5.65 lakhs during the year 1981-82. Although these sales were not supported by prescribed declarations in form C or D, tax was levied (November 1984) at the rate of 4 per cent, instead of at the correct rate of 10 per cent. This resulted in short levy of tax amounting to Rs.33,911.

On the omission being pointed out in audit (September 1985), the department stated (June 1987) that the assessment had since been revised (September 1986) and additional demand for Rs.33,911 raised. Report on recovery has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

2.7. Irregular grant of exemptions

(i) As per Government notification dated 30th June 1979, issued under the U.P.Sales Tax Act, 1948, institutions certified by the All India Khadi and Village Industries Commission, Bombay were exempted from payment of tax on sale of products of the village industries mentioned in the schedule annexed thereto.

In Sales Tax Circle, Lansdowne, a village association, certified by the All India Khadi and Village Industries Commission, Bombay, sold rosin, turpentine oil and varnish for Rs.4.18 lakhs during the year 1982-83. Although these goods were not included in the said schedule, the turnover of their sales was exempted from levy of tax. Irregular grant of exemption led to non-levy of tax amounting to Rs.34,392. As the tax was admittedly payable,

interest at the rate of 2 per cent per month was also chargeable from the association upto the date of deposit.

On the omission being pointed out in audit (June 1987), the department intimated (March 1988) that assessment had since been revised and additional demand for Rs.33,400 raised. Report on recovery has not been received (April 1989).

* The case was reported to Government in January 1988; their reply has not been received (April 1989).

(ii) Under the U.P.Sales Tax Act, 1948, sales of rubberised or synthetic waterproof fabrics, whether of single or double texture, are exempt from levy of tax provided that additional Central Excise duty leviable thereon has been paid on such goods and dealer thereof furnished proof to the satisfaction of the assessing authority that such duty has been paid.

In Sales Tax Circle, Hathras, a dealer manufactured and sold mackintosh (rubberised cloth) for Rs.2.35 lakhs during the year 1978-79. Although no proof was furnished by the dealer regarding payment of additional Central Excise duty, these sales were exempted from levy of tax by the assessing officer. Mackintosh was not otherwise classified under the U.P.Sales Tax

Act, 1948. As such, tax on these sales was leviable at the rate prescribed for unclassified items, viz., 8 per cent (including additional tax of one per cent). Irregular grant of exemption led to underassessment of tax amounting to Rs.18,800. The dealer was also liable to pay interest at the rate of 2 per cent per month upto the date of deposit.

On the omission being pointed out in audit (October 1985), the department stated (October 1987) that assessment had since been revised and additional demand for Rs.18,800 raised. Report on recovery and action taken for levying interest has not been received (April 1989).

The case was reported to Government in December 1987; their reply has not been received (April 1989).

2.8. Non-levy of additional tax

(i) Under Section 3-F of the U.P. Sales Tax Act, 1948, additional tax at the rate of one per cent over and above the normal sales tax was leviable, if the dealer's turnover in any assessment year exceeded rupees two lakhs upto 3rd December 1979. During the period 4th December 1979 to 6th September 1981, there was no turnover limit for levy of additional tax. Section 3-F was omitted with effect from 7th September 1981.

(a) In Sales Tax Circle, Lucknow, the sales of transformer, electric wire and other electrical goods made by a government undertaking was determined at Rs.1.60 crores during the year 1975-76. Tax amounting to Rs.14.20 lakhs was levied (3rd June 1986) on the said turnover. The additional tax at the rate of one per cent was, however, omitted to be levied. The omission led to non-levy of additional tax of Rs.1.60 lakhs.

On the omission being pointed out in audit (May 1987), the department stated (August 1988) that assessment had since been revised and additional demand for Rs.1.60 lakhs raised. Report on recovery has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(ii) Under Section 3-E of the U.P. Sales Tax Act, 1948, every dealer, the aggregate of whose turnover exceeded ten lakh rupees, was liable to pay an additional tax at the rate of 5 per cent of the tax payable by him under the Act during the period from 1st October 1983 to 31st October 1985. With effect from 1st November 1985, the additional tax became payable at the rate of 10 per cent of the tax by all dealers irrespective of the aggregate of turnover.

In one case additional tax of Rs.12,131 along with interest of Rs.10,270 was realised on being pointed out in audit. Another case is mentioned below.

In Sales Tax Circle, Allahabad, the aggregate turnover of a dealer for the assessment years 1983-84 (1st October 1983 to 31st March 1984), 1984-85 and 1985-86 (1st April 1985 to 31st October 1985) exceeded ten lakh rupees, but additional tax at the rate of 5 per cent for the period 1st October 1983 to 31st October 1985 and at the rate of 10 per cent for the period 1st November 1985 to 31st March 1986 was not levied. Total additional tax not levied amounted to Rs.13,700.

On the omission being pointed out in audit (December 1987), the department stated (May 1988) that assessments had since been revised and additional tax amounting to Rs.13,700 levied. Report on recovery has not been received (April 1989).

The case was reported to Government in February 1988; their reply has not been received (April 1989).

2.9. Non-levy of purchase tax

Under Section 3AAAA of the U.P. Sales Tax Act, 1948, where any goods liable to tax at the point of sale to consumers

are sold to a dealer but, in view of any provision of the Act, no tax is payable by the seller and the purchasing dealer does not resell such goods within the State or in the course of inter-State trade or commerce in the same form and condition in which he had purchased them, the purchasing dealer shall, subject to provisions of Section 3, be liable to pay tax on such purchases at the rate at which tax is leviable on sales of such goods to the consumers within the State.

(a) In Sales Tax Circle, Kanpur, a dealer purchased old plastic waste (taxable at the point of sale to consumer) for Rs.1.18 lakhs and Rs.0.92 lakh during the years 1982-83, and 1983-84 respectively from unregistered dealers without payment of tax and manufactured plastic footwears and cycle seat covers out of it. As the dealer did not resell the old plastic waste in the same form and condition in which it was purchased, he was liable to pay purchase tax amounting to Rs.16,818 at the rate of 8 per cent, which was omitted to be levied.

On the omission being pointed out in audit (December 1987), the department stated (September 1988) that on re-examination of account books, assessments for both the years had since been revised and additional demand for Rs.25,934 raised (July 1988). Report on recovery has not been received (April 1989).

The case was reported to Government in March 1988; their reply has not been received (April 1989).

(b) In Sales Tax Circle, Bareilly, a dealer purchased condemned railway wasgons which fall* under the entry "old, discarded, unserviceable, obsolete machinery, store or vehicles" for Rs.6.32 lakhs tax-free on the strength of declarations in form III-A during the year 1983-84 from Railway Department. He dismantled the wagons and obtained iron scrap, which was sold to manufacturers of iron and steel tax-free against declarations in form III-B. As the wagons were not sold in the same form and condition in which they had been purchased, the dealer was liable to pay purchase tax amounting to Rs.50,530 at the rate of 8 per cent, which was omitted to be levied.

On the omission being pointed out in audit (August 1987), the department stated (September 1988) that assessment had since been revised (February 1988) and additional demand for Rs.50,530 raised. Report on recovery has not been received (April 1989).

*M/s District Controller of Stores, Alambagh, Lucknow (S.T.I. 1982 U/s 35 I - P.S.T.9).

The case was reported to Government in June 1988; their reply has not been received (April 1989).

2.10 Application of incorrect rate of sales tax

In one case, involving short levy due to application of incorrect rate of tax, an amount of Rs.23,421 along with interest was realised on being pointed out in audit. A few other cases are mentioned below.

(i) Under the U.P.Sales Tax Act, 1948, tax is leviable on sales of all electrical goods, instruments, apparatus, electrical earthenware and procelain, etc. and all other accessories and components whether sold as a whole or in parts is leviable at the rate of 12 per cent with effect from 7th September 1981.

In Sales Tax Circle, Robertsganj (district Mirzapur), a dealer sold insulating material for Rs.5 lakhs during the year 1982-83. Tax on these sales was levied (March 1987) at the rate of 8 per cent, instead of at the correct rate of 12 per cent. Application of incorrect rate led to short levy of tax amounting to Rs.20,000. Interest at the rate of 2 per cent per month was also chargeable upto the date of deposit.

On the omission being pointed out in audit (July 1987), the department finally stated (February 1989) that on re-assessment of remanded case additional demand for Rs.20,000 had been raised in October 1988.

The case was reported to Government in April 1988; their reply has not been received (April 1989).

(ii) Under the U.P.Sales Tax Act, 1948, on sales of room coolers and parts and accessories thereof, tax is leviable at the rate of 12 per cent with effect from 7th September 1981.

In Sales Tax Circle, Agra, sales of cooler bodies made by a dealer during the year 1982-83 were determined at Rs.25 lakhs. Tax on these sales was levied (March 1987) at the rate of 8 per cent, instead of at 12 per cent. Application of incorrect rate of tax led to short levy of tax by Rs.99,510.

On the omission being pointed out in audit (August 1987), the department stated (January 1988) that assessment had since been revised and additional demand for Rs.99,510 raised. Report on recovery and action taken to charge interest has not been received (April 1989).

The case was reported to Government in March 1988; their reply has not been received (April 1989).

(iii) Under the U.P. Sales Tax Act, 1948, on sales of mill stores and hardware, tax is leviable at the rate of 8 per cent in the hand of manufacturer or importer, with effect from 7th September 1981. As per judgment of the Hon'ble Allahabad High Court, "chakki ka patthar" is an item of mill stores.

In Sales Tax Circle, Kanpur, a dealer sold "chakki ka patthar" for Rs.1.46 lakhs and Rs.5.80 lakhs during the years 1982-83 and 1983-84 respectively. Tax on these sales was levied at the rate of 6 per cent, instead of 8 per cent leading to short levy of tax amounting to Rs.14,517. Interest at the rate of 2 per cent per month was also chargeable from the dealer.

On the omission being pointed out in audit (January 1987), the department stated (August 1988) that assessment for the year 1982-83 had since been revised and additional demand for Rs.2,924 raised and that the case for the year 1983-84 had been reopened for assessment at the request of the dealer. Report on recovery along with interest for the year 1982-83 and results of assessment for the year 1983-84 have not been received (April 1989).

The case was reported to Government in April 1988; their reply has not been received (April 1989).

(iv) Under the U.P. Sales Tax Act, 1948, on sales of all kinds of metals and alloys, tax is leviable at the rate of 4 per cent with effect from 7th September 1981, and in the case of inter-State sales of these goods not covered by prescribed declarations, tax was leviable at 10 per cent.

In Sales Tax Circle, Almora, a dealer sold bronze powder for Rs.6 lakhs within the State and for Rs.7 lakhs in the course of inter-State trade and commerce (not covered by prescribed declarations) during the year 1982-83. Tax on these sales was levied at the rate of 3 per cent both in the case of sales within the State and sales outside the State. Application of incorrect rate of tax led to short levy of tax by Rs.55,000. Interest at the rate of 2 per cent per month was also chargeable upto the date of deposit of tax.

On the omission being pointed out in audit (July 1987), the department stated (June 1988) that assessment had since been revised and additional demand for Rs.55,000 raised. Report on recovery of tax along with interest due thereon has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(v) Under the U.P. Sales Tax Act, 1948, on turnover of sales of "all kinds of minerals, ores, metals, scraps and alloys including sheets and circles" used in the manufacture of brass wares, tax is léviable at the rate of 4 per cent with effect from 7th September 1981.

In Sales Tax Circle, Moradabad, on sales of brass ingots, copper circles, brass sheets and brass scraps amounting to Rs.14.18 lakhs made by a dealer during the period from 1st October 1981 to 31st March 1982, tax was levied (31st March 1986) at the rate of 3 per cent, instead of at the correct rate of 4 per cent. Application of incorrect rate of tax led to underassessment of tax by Rs.14,183. Besides, interest at the rate of 2 per cent per month was also chargeable for non-payment of tax within the prescribed time.

On the omission being pointed out in audit (September 1987), the department stated (December 1988) that assessment had since been revised and tax amounting to Rs.14,183 levied. Report on recovery of tax along with interest chargeable thereon has not been received (April 1989).

The case was reported to Government in December 1987 and again in July 1988; their reply has not been received (April 1989).

(vi) Under the U.P. Sales Tax Act, 1948, on sales of loudspeakers as also spare parts thereof, tax was leviable at the rate of 13 per cent, including additional tax of one per cent upto 6th September 1981, in the hands of manufacturer or importer.

In Sales Tax Circle, Kanpur, a dealer made sales of loudspeakers, imported from outside the State, for Rs.4.99 lakhs during the year 1981-82 (1st April 1981 to 6th September 1981). On these sales, tax was levied at the rate of 10 per cent (including additional tax of one per cent), instead of at the correct rate of 13 per cent. The application of incorrect rate resulted in short levy of tax amounting to Rs.14,957. As the tax was admittedly payable, interest at the rate of 2 per cent per month was also chargeable upto the date of deposit.

On the omission being pointed out in audit (December 1986), the department stated (October 1987) that the assessment order had since been revised (August 1987) and additional demand for Rs.14,957 raised. Report on recovery has not been received (April 1989).

The case was reported to Government in November 1987; their reply has not been received (April 1989).

(vii) Under Section 8(2) of the Central Sales Tax Act, 1956, on inter-State sales of

declared goods not covered by prescribed declarations in form C or D, tax is leviable at twice the rate applicable to sale or purchase of such goods inside the State.

In Sales Tax Circle, Meerut, a dealer made inter-State sales of Khandsari sugar for Rs.14 lakhs during the year 1981-82 (upto 6th September 1981). Though these sales were not covered by prescribed declarations in form C or D, tax was levied at normal rate of 2 per cent instead of twice the rate, i.e., 4 per cent. Application of incorrect rate of tax resulted in underassessment of tax by Rs.28,000.

On the omission being pointed out in audit (March 1987), the department stated (March 1988) that assessment had since been revised and additional demand for Rs.28,000 raised. Report on recovery has not been received (April 1989).

The case was reported to Government in September 1988; their reply has not been received (April 1989).

2.11. Allowance of irregular tax-free purchases of raw materials

Section 4-B of the U.P.Sales Tax Act, 1948, read with Government notification dated 31st December 1976, provides for a

scheme for special relief in tax to certain manufacturers (holding recognition certificate) by way of tax-free purchases of raw materials required by them for use in the manufacture of certain notified goods (excluding paper, catechu, matches, empty match boxes etc.) for a period of 5 years in specified backward districts of Uttar Pradesh and for 3 years in other districts on fulfilment of certain conditions. After the specified period, dealers are entitled to purchase raw materials at the concessional rate of 4 per cent. In case of goods not specified in the said notification or any subsequent notification, the manufacturers are entitled to purchase raw materials at the concessional rate of 4 per cent.

Under Section 3-B of the Act ibid, in the event of issue of a false declaration by reason of which tax on sale or purchase of goods ceases to be leviable, the dealer becomes liable to pay an amount which would have been payable as tax on such transaction, had such declaration not been issued. Besides, the dealer is also liable to pay, by way of penalty, a sum which shall not be less than 50 per cent of the tax avoided ~~but~~ not more than one and half times of such tax, under Section 15-A(1)(L) of the Act ibid.

(a) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for the

manufacture of auto-parts and tractor parts, purchased iron and steel and iron scraps tax-free on the strength of declaration forms III-B for Rs.3.74 lakhs and Rs.2.19 lakhs during the years 1979-80 and 1980-81 respectively. As tractor parts and auto-parts was not specified in Annexures I and III of the notification dated 31st December 1976 or in any subsequent notification, the dealer was only entitled to purchase raw materials at the concessional rate of 4 per cent and not tax-free. While completing assessments (March 1984 and February 1985), this irregularity was not detected by assessing authority also. Mis-utilisation of declaration forms led to evasion of tax amounting to Rs.23,627. The dealer was also liable to pay a minimum penalty of fifty per cent of the amount of tax.

On the omission being pointed out in audit (December 1987), the department stated (August 1988) that assessments had since been revised and additional demand for Rs.23,627 raised. Report on recovery and levy of penalty has not been received (April 1989).

The case was reported to Government in May 1988; their reply has not been received (April 1989).

(b) In Sales Tax Circle, Varanasi, a dealer, holding recognition certificate for manufacture of steel trunks, purchased iron sheets for Rs.5.16 lakhs tax-free on the

strength of declaration in form III-B during the year 1984-85. As steel trunk is not specified in the annexure to the said notification dated 31st December 1976 or in any subsequent notification, the dealer was not entitled to tax-free purchases of raw material. He could purchase raw material at concessional rate of 4 per cent on the strength of declarations in form III-B. However, as iron sheets were taxable at the rate of 4 per cent, issue of declarations in form III-B by the dealer was not necessary in this case. For misutilisation of declaration forms, the dealer was, therefore, liable to pay an amount of Rs.20,635 equal to the amount of tax payable on such transaction and, in addition, minimum penalty of Rs.10,318 being 50 per cent of tax payable. But the tax and penalty were omitted to be levied.

The case was reported to the department in April 1988 and to Government in September 1988; their replies have not been received (April 1989).

(c) In Sales Tax Circle, Varanasi, a dealer, holding recognition certificate for manufacture of P.C.C. poles, purchased H.T. wire and M.S. rounds for Rs.5.40 lakhs tax-free on the strength of declaration forms III-B during the year 1983-84. As P.C.C. poles are not mentioned in the annexures to the aforementioned notification or in any subsequent notification, the dealer was

entitled to purchase the said raw materials at the concessional rate of 4 per cent against form III-B and not tax-free. The dealer was, therefore, liable to pay Rs.21,598 being equal to the amount of tax avoided, by misusing the declaration forms. He was also liable to pay a minimum penalty of Rs.10,799.

On the omission being pointed out in audit (July 1987), the department stated (December 1988) that the tax amounting to Rs.21,598 had since been levied. Report on recovery of tax and levy of penalty has not been received (April 1989).

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(d) In Sales Tax Circle, Lucknow, a dealer was granted recognition certificate for manufacture of plastic products in January 1977. As Lucknow was not in the list of specified backward districts, the dealer was entitled to tax-free purchases of raw materials for a period of three years only, i.e., upto 31st December 1979. The dealer was, however, allowed (at the time of assessment in January 1986) purchases of raw materials worth Rs.6.74 lakhs tax-free on the strength of declarations in form III-B during the years 1980-81 to 1982-83. Grant of irregular tax-free purchases led to non-assessment of tax amounting to Rs.26,947, besides loss of interest which worked out to Rs.42,286 (up to July 1988).

The case was reported to the department in November 1987 and to Government in September 1988; their replies have not been received (April 1989).

- (e) In Sales Tax Circle, Ghaziabad, a dealer was granted recognition certificate for manufacture of transformers in 1972. He purchased iron and steel and corrugated boxes etc. for Rs.6.41 lakhs tax-free on the strength of declaration in form III-B during the years 1980-81, 1981-82 and 1982-83. During the said period the dealer was entitled to purchase raw materials at the concessional rate of tax of 4 per cent as per notification dated 31st December 1976, but he purchased raw materials tax-free by issuing declaration form III-B as aforesaid. For issue of false declarations in form III-B the dealer was liable to pay an amount of Rs.25,659 by way of tax. Besides, penalty up to Rs.38,488 was also leviable. But the department failed to levy tax and penalty.

On the omission being pointed out in audit (June 1986), the department stated (February 1989) that assessments had since been revised and additional demand for Rs.49,659 (including penalty amounting to Rs.24,000) raised.

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(f) In Sales Tax Circle, Ghaziabad, a dealer was granted recognition certificate for the manufacture of paper with effect from 3rd August 1979. He purchased raw materials (waste paper and other stores) for Rs.16.71 lakhs and Rs.43,170 respectively tax-free on the strength of declaration form III-B during the years 1981-82 and 1982-83. As the manufacturers of paper were not entitled to the benefits under this scheme, grant of recognition certificate to the dealer was irregular. This led to loss of revenue amounting to Rs.1.04 lakhs.

The case was reported to the department in October 1987 and to Government in April 1988; their replies have not been received (April 1989).

(g) In Sales Tax Circle, Kanpur, three dealers were granted recognition certificate for the manufacture of cycle seat leather tops. They made tax-free purchases of raw materials for Rs.10.96 lakhs, Rs.15.47 lakhs, Rs.21.37 lakhs and Rs.12.60 lakhs during the years 1980-81, 1981-82, 1982-83 and 1983-84 respectively on the strength of declaration in form III-B and used the same in the manufacture of cycle seat leather tops. As cycle seat leather tops are neither cycle parts nor accessories (mentioned in the notification dated 31st December 1976), the dealers were not entitled to purchase raw materials tax-free for the manufacture of

leather tops; but only at the concessional rate of 4 per cent. Irregular allowance of tax-free purchases of raw material led to loss of revenue amounting to Rs.2.42 lakhs.

On this being pointed in audit (December 1987), the department stated in June 1988, that a notification had since been issued according to which cycle seat tops are to be treated as parts of cycles with effect from 30th March 1987. It was further pointed out to the department in November 1988 that as the notification is effective from 30th March 1987, the loss of Rs.2.42 lakhs pointed out by audit still remains. No further reply has been received (April 1989).

The case was reported to Government in January 1988; their replies have not been received (April 1989).

2.12. Non-imposition of penalty

(a) Section 4-B of the U.P. Sales Tax Act, 1948 provides for a scheme for special relief in tax on purchases of raw materials by manufacturers for use in manufacture of certain notified goods on fulfilment of certain conditions. Goods so manufactured are required to be sold within the State or in the course of inter-State trade or commerce or in the course of export out of India. In the event of violation of any of the conditions,

the dealer is liable to pay penalty, susbject to a minimum amount of tax which would have been payable, under the provisions of the Act, on sale of such notified goods in the State but not more than three times the amount of such tax.

(i) In Sales Tax Circle, Varanasi, a dealer, holding recognition certificate for manufacture of oil, purchased mahua seeds for Rs.14.59 lakhs at the concessional rate on the strength of declarations in form III-B during the year 1983-84. Out of this, the dealer manufactured oil and transferred oil valuing Rs.5.23 lakhs outside the State on consignment basis. The dealer was, therefore, liable to pay a minimum penalty of Rs. 20,913 but the department failed to detect the irregularity and levy penalty for the same.

On the omission being pointed out in audit (July 1987), the department stated (February 1989) that penalty amounting to Rs.21,960 had since been imposed.

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(ii) In Sales Tax Circle, Lucknow, a dealer, holding recognition certificate for the manufacture of asbestos sheets, purchased cement for Rs.96.65 lakhs at the concessional rate of tax on the strength of declarations in

form III-B during the year 1981-82 and manufactured asbestos sheets. Out of the manufactured sheets, the dealer transferred asbestos sheets for Rs.39.45 lakhs outside the State on consignment basis. For violation of the stipulated provisions, penalty upto Rs.9.46 lakhs, i.e., three times the amount of tax which would have been payable on sale of asbestos sheets in the State could be levied but no penalty was imposed by the department.

On the omission being pointed out in audit (September 1986), the department stated (December 1988) that the proportionate value of asbestos sheets prepared out of cement procured at concessional rate and transferred by the dealer outside the State worked out to Rs.30 lakhs only, on which penalty amounting to Rs. 3 lakhs had since been imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(iii) In Sales Tax Circle, Varanasi, a dealer, holding recognition certificate for manufacture of transformers, purchased copper wire for Rs.29.40 lakhs during the years 1982-83 to 1984-85 at the concessional rate of 4 per cent on the strength of declarations in

form III-B and used the same in repairs of transformers. As the dealer used the raw material for a purpose other than that for which recognition certificate was granted to him, a minimum penalty of Rs.2.35 lakhs equal to the relief secured could be levied. The department, however, failed to detect the irregularity and levy penalty for the same.

On the omission being pointed out in audit (July 1987), the department stated (February 1989) that penalty amounting to Rs.7,26,311 had since been imposed.

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(iv) In Sales Tax Circle, Ghaziabad, a dealer, holding recognition certificate for the manufacture of iron and steel, purchased iron scrap for Rs.71.36 lakhs tax-free on the strength of declaration forms III-B during the year 1981-82 and manufactured iron ingots out of it. He transferred iron ingots worth Rs.11.27 lakhs outside the State on consignment basis. The dealer was, therefore, liable to pay a minimum penalty of Rs.45,092 which was omitted to be imposed.

The case was reported to the department in October 1987 and to Government in April 1988; their replies have not been received (April 1989).

(v) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for the manufacture of iron and steel, purchased iron ingots, rolls and blooms for Rs.250.28 lakhs tax-free on the strength of declarations in form III-B during the year 1978-79. He transferred the manufactured products valuing Rs.26.09 lakhs outside the State on consignment basis. As the manufactured goods to this extent were not sold as contemplated, the dealer was liable to pay a minimum penalty of Rs.1.04 lakhs equal to the amount of tax payable on sale of manufactured goods (iron and steel) within the State, but no penalty was imposed while making assessment in November 1982.

On this being pointed out in audit, the department stated (May 1988) that penalty of Rs.3.24 lakhs had since been imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in August 1988; their reply has not been received (April 1989).

(vi) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for the manufacture of iron and steel, purchased cast iron scrap and pig iron for Rs.20.83 lakhs tax-free on the strength of declarations in form III-B, during the years from 1978-79 to 1981-82 and manufactured diesel engines and

metric weights. As the raw materials were not used in the manufacture of goods for which recognition certificate was granted, the dealer was liable to pay minimum penalty of Rs.83,332.

On the omission being pointed out in audit, the department intimated (June 1987 and December 1987) that penalty amounting to Rs.2.29 lakhs had since been imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in April 1988; their reply has not been received (April 1989).

(vii) In Sales Tax Circle, Noida (district Ghaziabad), a dealer, holding recognition certificate for the manufacture of 'iron and steel', purchased iron wire for Rs.4.17 lakhs tax-free on the strength of declaration form III-B during the year 1982-83 and used it in the manufacture of wire rope which does not come within the definition of 'iron and steel'. As the dealer did not use the iron wire in the manufacture of iron and steel, he was liable to pay a minimum penalty of Rs.16,680 which was omitted to be imposed.

On the omission being pointed out in audit (September 1987), the department intimated (February 1988) that penalty of Rs.50,040 had since been imposed (November

1987). Report on recovery has not been received (April 1989).

The case was reported to Government in June 1988; their reply has not been received (April 1989).

(viii) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for the manufacture of nuts and bolts, purchased H.B. wire for Rs.11.15 lakhs, during the years 1980-81 to 1982-83, tax-free on the strength of declaration form III-B. Out of this, he disposed of the H.B. wire worth Rs.3.93 lakhs otherwise than manufacture of nuts and bolts. The dealer was, therefore, liable to pay a minimum penalty of Rs.15,708 which was omitted to be imposed.

On the omission being pointed out in audit (September 1987), the department intimated (March 1988) that penalty amounting to Rs.47,124 had since been imposed (January 1988). Report on recovery has not been received (April 1989).

The case was reported to Government in April 1988; their reply has not been received (April 1989).

(ix) In Sales Tax Circle, Agra, a dealer, holding recognition certificate for manufacture of iron and steel (iron castings), purchased pig iron tax-free for Rs.2.37 lakhs on the strength of declarations in form III-B during the years 1982-83 and 1983-84.

The dealer used the raw material (pig iron) in the manufacture of textile machinery parts. Penalty upto three times the relief in tax secured by him, i.e., Rs.28,494 could be imposed but it was omitted to be imposed while making assessments in May and December 1986.

On the omission being pointed out in audit (September 1987), the department stated (April 1988) that assessment orders of both the years had since been revised and penalty amounting to Rs.28,494 imposed on the dealer. Report on recovery has not been received (April 1989).

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(x) In Sales Tax Circle, Bulandshahr, a dealer, holding recognition certificate for the manufacture of steel tubes, purchased iron and steel for Rs.6.15 lakhs, during the year 1983-84, tax-free on the strength of declaration form III-B. Out of this, he utilized iron and steel worth Rs.5.71 lakhs in the manufacture of agricultural implements, instead of steel tubes. The dealer was, therefore, liable to pay minimum penalty of Rs.22,859 which was omitted to be imposed

On the omission being pointed out in audit (December 1987), the department

stated (August 1988) that assessment had since been revised and penalty amounting to Rs.45,718 imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(xi) In Sales Tax Circle, Ghaziabad, a dealer, holding recognition certificate for manufacture of 'iron and steel', purchased iron and steel for Rs.5.06 crores tax-free on the strength of declaration form III-B during the year 1983-84. Out of this, goods worth Rs.5 lakhs were disposed of by the dealer against declaration form III-B, instead of using them in manufacture of iron and steel. The dealer was liable to pay minimum penalty of Rs.20,008 which was omitted to be levied.

On the omission being pointed out in audit (June 1986), the department stated (April 1988) that penalty of Rs.32,413 had since been imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in June 1988; their reply has not been received (April 1989).

(b) Under Section 15-A(1)(c) of the U.P. Sales Tax Act, 1948, if the assessing authority is satisfied that any dealer or other

person has concealed the particulars of his turnover or has deliberately furnished inaccurate particulars of such turnover, it may direct that such dealer shall pay, by way of penalty, in addition to tax, a sum not less than fifty per cent but not exceeding one and one half times of the amount of tax which would thereby have been avoided.

In Sales Tax Circle, Varanasi, a dealer purchased iron and steel for Rs.25.45 lakhs tax-free against declarations in form III-B from a Government of India Undertaking at Kanpur during the year 1982-83. As a result of cross verification in audit, it was noticed (November 1987) that out of this, goods worth Rs.23.18 lakhs were not accounted for by him in his accounts. For suppression of his turnover, penalty upto one and half times the tax avoided i.e., Rs.1.39 lakhs could be imposed. But the assessing authority failed to detect the suppression at the time of making assessment in March 1984.

On the omission being pointed out in audit (June 1988), the department stated (December 1988) that tax amounting to Rs.3.40 lakhs and penalty amounting to Rs.4.80 lakhs had since been imposed. Report on recovery has not been received (April 1989).

The case was reported to Government in September 1988; their reply has not been received (April 1989).

(c) Under Section 28-A of the U.P. Sales Tax Act, 1948, where goods are brought in the State of U.P. from outside by rail, the importer is required to furnish the prescribed declaration (form XXXI) in duplicate to the assessing officer for his endorsement before obtaining the delivery of goods. In the event of breach of aforesaid provisions, the dealer is liable to pay by way of penalty, in addition to the tax if any, a sum which shall not exceed 40 per cent of the value of goods involved, as per provisions under Section 28-A(1)(o) of the Act ibid.

In Sales Tax Circle, Aligarh, a dealer brought fertilizer worth Rs. 7.91 lakhs (determined by the assessing officer as Rs. 8 lakhs) by rail from outside the State on 16th May 1985 and 17th May 1985 but did not submit the declaration forms in duplicate to the Assessing officer before obtaining the delivery of goods. The declaration forms were submitted to the assessing officer on 15th February 1986. For not submitting declaration forms before taking delivery, penalty upto Rs. 3.20 lakhs (being 40 per cent of the value of goods involved) could be imposed but no penalty was imposed.

On the omission being pointed out in audit (October 1987), the department stated (February 1988), that penalty amounting to Rs. 60,000 had since been imposed (November

1987) on the dealer. Report on recovery has not been received (April 1989).

The case was reported to Government in April 1988; their reply has not been received (April 1989).

(d) Under the Central Sales Tax Act, 1956, if a registered dealer, who purchases goods from outside the State at the concessional rate against the declaration in form 'C', uses the goods for any purpose other than that for which registration certificate was granted to him or falsely represents, when purchasing any class of goods, that goods of such class are covered by his certificate of registration, the assessing authority may impose penalty upto one and half times the tax payable under Section 8(2) ibid on the purchase of such goods.

(i) In Sales Tax Circle, Ghaziabad, a dealer, holding registration certificate under the Central Sales Tax Act, for the manufacture of electrical equipment, purchased cables worth Rs.4.34 lakhs against declarations in form 'C' during the year 1980-81. Instead of using the cables in the manufacture of goods, the dealer sold them by transfer of documents. As the goods were not used for the purpose for which the dealer was granted registration certificate, penalty upto Rs.65,160

could be imposed but no penalty was imposed while making assessment (January 1985).

On the omission being pointed out in audit (March 1987), the department intimated (April 1988) that penalty amounting to Rs.65,000 had since been imposed in February 1988. Report on recovery has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(ii) In Sales Tax Circle, Farrukhabad, a dealer, purchased telephone spares, coconut oil, way bridge and stone grits for Rs.1.26 lakhs at the concessional rate of 4 per cent from outside the State on the strength of declaration form 'C' during the year 1982-83 by falsely representing that these goods were covered by his certificate of registration, although these goods were not covered by his certificate of registration. The dealer was, therefore, liable to pay penalty upto Rs.19,618, which was omitted to be imposed. The department failed to detect the irregular purchases on the strength of 'C' forms.

On the omission being pointed out in audit (September 1987), the department intimated (April 1988) that penalty of Rs.19,618 had since been imposed (November 1987) and realised.

The case was reported to Government in June 1988; their reply has not been received (April 1989).

(iii) In Sales Tax Circle, Moradabad, a registered dealer, purchased television sets and gas stoves for Rs.3.76 lakhs and Rs.1.27 lakhs respectively from outside the State during the year 1984-85 at the concessional rate of tax on the strength of declarations in Form C, though television sets and gas stoves were not covered by his registration certificate. Penalty up to Rs.86,815 could be imposed for falsely representing while purchasing the goods, but no penalty was imposed by the department.

On the omission being pointed out in audit (December 1987), the department stated (November 1988) that the matter was examined and it was found that inclusion of television sets and gas stoves was made in the central registration certificate of the dealer with effect from 9th August 1984 and 7th January 1985 respectively and purchases of television sets and gas stoves before these dates amounted to Rs.53,843 and Rs.89,003 respectively and penalty amounting to Rs.23,042 had since been imposed. However, the fact remains that the registration certificate put up to audit in October 1987 did not contain these additions.

The case was reported to Government in January 1988; their reply has not been received (April 1989).

2.13. Short levy due to mistakes in computation

(i) In Sales Tax Circle, Allahabad, tax liability of dealer, under the Central Sales Tax Act, 1956, for the assessment year 1980-81 in respect of his two units at Naini and Mathura was assessed (January 1987) at Rs.24,42,700 and Rs.5,09,217 respectively. The total tax liability in respect of the two units was, however, wrongly computed at Rs.29,01,837, instead of at the correct amount of Rs.29,51,917. The calculation mistake resulted in short charge of tax amounting to Rs.50,080. Interest at the rate of 2 per cent per month was also chargeable upto the date of its deposit.

On the mistake being pointed out in audit (October 1987), the assessing officer revised (October 1987) the assessment order and raised additional demand for Rs.50,080. Report on recovery of tax and interest has not been received (April 1989).

The case was reported to Government in December 1987; their reply has not been received (April 1989).

(ii) On inter-State sales of goods (other than declared goods) not covered by

prescribed declarations in form C or D, tax is leviable at the rate of 10 per cent or at the rate applicable to sale of such goods within the State, whichever is higher. On sales of cosmetics within the State, tax is leviable at the rate of 12 per cent with effect from 7th September 1981.

In Sales Tax Circle, Ghaziabad, a dealer made inter-State sales of cosmetics not covered by prescribed declarations in form C or D for Rs.1.20 lakhs during the year 1982-83. Tax on these sales at the rate of 12 per cent actually works out to Rs.14,454 but it was incorrectly worked out as Rs.1,494. The calculation mistake led to short levy of tax amounting to Rs.12,960. Interest at the rate of 2 per cent per month is also chargeable up to the date of its deposit.

On the omission being pointed out in audit (September 1987), the department stated (August 1988) that assessment had since been revised and additional demand for Rs.12,960 raised. Report on recovery of tax and interest has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

2.14. Turnover escaping assessment

As per clause (ii) of explanation II

below Section 2(i) of the U.P. Sales Tax Act, 1948, turnover shall include any sums charged for anything done by the dealer in respect of the goods sold at the time of or before the delivery thereof other than cost of freight or delivery, or cost of installation or the amount realised as sales or purchase tax, when such cost or amount is separately charged. As per judicial pronouncement, in the absence of any evidence produced by assessee to show that sale was complete before transport of goods outside the State and also in the absence of any express stipulation between the parties that freight charges were to be borne by purchaser, freight charges would be included in the turnover of selling dealer.

In the Sales Tax Circle, Dhampur (district Bijnor), a dealer made inter-State sale of spirit against declaration form 'C' for Rs.43.26 lakhs during the year 1980-81 excluding freight charges of Rs.4.46 lakhs. As there was no evidence to show that sale was complete before transport of spirit or any stipulation that freight charges would be borne by the purchaser, the freight charges were required to be included in the turnover of the dealer. Non-inclusion of freight charges in the turnover resulted in turnover of Rs.4.46 lakhs escaping assessment and short levy of tax amounting to Rs.17,849.

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On this being pointed out in audit (October 1985), the department stated (July 1987) that additional demand for Rs.17,849 had since been raised (April 1987) and recovered (July 1987).

The case was reported to Government in December 1987; their reply has not been received (April 1989).

2.15. Affording credit in excess of actual deposit

In Sales Tax Circle, Allahabad, tax liability of a government undertaking for the assessment year 1982-83, under the Central Sales Tax Act, 1956, was determined at Rs.1,56,08,138 and an additional demand for Rs.8,47,395 was raised after allowing credit for Rs.1,52,60,743 towards tax stated to have been deposited by the undertaking along with monthly returns. It was, however, noticed that the total tax deposited by the undertaking actually aggregated Rs.1,52,45,375 and not Rs.1,52,60,743. This resulted in raising of short demand by Rs.15,368. As the tax was admittedly payable, interest at the rate of 2 per cent per month was also chargeable upto the date of deposit.

On the omission being pointed out in audit (October 1987), the department stated (June 1988) that assessment had since been

revised and additional demand for Rs.15,368 raised and realised. Report on recovery of interest has not been received (April 1989).

The case was reported to Government in December 1987; their reply has not been received (April 1989).

CHAPTER 3

STATE EXCISE

3.1. Results of Audit

Test check of the account records of the State Excise Offices, conducted in audit during the year 1987-88, revealed non-levy or short levy of duties and fees amounting to Rs.91.15 lakhs in 842 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-collection or short collection of licence fee	7	4.65
2. Non-levy or short levy of excise duty on wastage of spirit/ excess strength	13	2.55
3. Non-realisation of composition fee	740	0.29
4. Non-receipt of verified passes	14	12.03
5. Non-levy of interest	10	4.27

6. Short levy of export duty	1	0.41
7. Other irregularities	<u>57</u>	<u>66.95</u>
Total	<u>842</u>	<u>91.15</u>

A few important cases noticed during 1987-88 and earlier years, and findings of a review on "Control over production and distribution of molasses" are mentioned in the succeeding paragraphs.

3.2. Control over production and distribution of molasses

3.2.1. Introduction

Molasses is an uncrystallized syrup obtained as an important by-product in the process of manufacture of sugar. This is used in the manufacture of alcohol. There are 102 sugar factories in the State of Uttar Pradesh working on vacuum pan system. They produce, on an average, 4 tonnes of sugar factory molasses on crushing 100 tonnes of sugarcane. There are 1,767 khandsari units in the State working on open pan system where the average production of molasses is around 6 tonnes on crushing 100 tonnes of sugarcane. As per chemical analysis, the khandsari molasses contain 58 to 69 per cent of fermentable sugar as

against 40 to 50 per cent in molasses produced by sugar factories.

Uttar Pradesh is a large producer of sugarcane in India. The production increased to 846 lakh metric tonnes in 1986-87 from 717 lakh metric tonnes in 1981-82. Of the total sugarcane crushed in the State, the sugar factories utilise 23 to 32 per cent, while the khandsari units account for around 12 to 15 per cent in the production of sugar and the rest goes into production of gur.

The most important use of the molasses is in the manufacture of alcohol, both potable as well as industrial, particularly for alcohol based chemicals. It is also used in cattle feed, tobacco curing, foundries and forges. The State Government utilises about 65 per cent of the sugar factory molasses for production of alcohol in 28 distilleries with an installed capacity aggregating 370 million litres of alcohol per annum. The annual production of alcohol during the period 1981-82 to 1985-86 was much below the total installed capacity of the distilleries. The highest production recorded so far was during 1983-84 when production reached 180 million litres (i.e., 48.6 per cent of the installed capacity). It came down to 148 million litres (40 per cent of the installed capacity) during 1985-86.

The supply and distribution of molasses produced by sugar factories in Uttar Pradesh is governed by the Uttar Pradesh Sheera Niyamtran Adhiniyam, 1964 and the Uttar Pradesh Sheera Niyamtran Niyamawali, 1974. The State Government appointed the State Excise Commissioner as Controller of Molasses in November 1965 but did not publish any rules to carry out the purposes of the said Act till July 1974. Government also provided for the creation of a fund called "Molasses Fund", with effect from July 1974, by depositing the amounts received at the prescribed rates in accordance with the grades of the molasses sold by each sugar factory. Overall control of the said fund is vested in the Controller of Molasses; the fund, inter alia, was to be used for erection of adequate storage facilities for molasses with his prior sanction. However, Government has not laid down so far (February 1989) any control over molasses produced by Khandsari units, which in fact had greater alcohol production than that of the sugar factories, in spite of the matter being under consideration of Government since October, 1977.

3.2.2. Scope of Audit

The object of the review was to study the procedure followed in regard to control over production, storage, gradation of

molasses produced by the sugar factories/Khandsari units and regulation of supply, distribution and gainful utilisation thereof by the distilleries. The review was undertaken during the period July 1987 to April 1988 and covered the offices of the Excise Commissioner and Controller of Molasses, Uttar Pradesh, Sugarcane-cum-sugar Commissioner, Uttar Pradesh, 24 sugar factories and 14 distilleries, out of 102 sugar factories and 28 distilleries. Generally, the period covered by Audit was from the molasses years 1982-83 to 1986-87; in certain cases records of earlier years were also checked wherever it was considered necessary.

3.2.3. Organisational set-up

The Excise Commissioner is the ex-officio Controller of Molasses for exercising control over production, storage etc. of molasses produced by the sugar factories and regulation, supply and distribution thereof. For the above purposes, the Commissioner is assisted by an Assistant Excise Commissioner with his staff at Headquarters. At the field level, there are three Assistant Excise Commissioners with three Superintendents each in charge of one of the three molasses zones - Eastern, Western and Central. Besides, there is

provision for one Excise Inspector/Sub-Inspector to be posted in each sugar factory.

3.2.4. Highlights

(1) The Controller of Molasses did not exercise control either on the exit of molasses from each sugar factory or on the receipt of gate passes duly verified by the officers in-charge of concerned distilleries. Test check in 8 sugar factories revealed that 30 per cent gate passes (6,737) for the period 1981-82 to 1986-87 were not received back duly verified.

(2) The excess quantity of molasses noticed in actual measurements on two dates in one unit ranged between 326 and 634 per cent, whereas in another unit on five dates excess quantity ranged from 123 to 1,962 per cent. No procedure has been prescribed to deal with such cases.

(3) The production of molasses declined from 85.38 lakh quintals during the year 1982-83 to 73.36 lakh quintals during the year 1985-86. In 1986-87, there was sudden increase to 132.40 lakh quintals. Due to improper storage of molasses 53.56 lakh quintals of molasses became unfit for distillation during the period 1982-83 to 1986-87.

(4) During 1986-87, 35 per cent of the stock of molasses remained undistributed in sugar factories.

(5) On an average, 65 per cent of molasses available for distribution was used in the manufacture of spirit and power alcohol during 1982-83 to 1986-87 and approximately, 10 per cent was declared unfit for distillation, which was ultimately drained out, released or removed.

(6) As on 31st October 1987, 58 (out of 102) sugar factories had shortage of storage capacity to the extent of 10.61 lakh quintals of molasses.

(7) In 14 sugar factories, 4.05 lakh quintals of molasses, during the period 1981-82 to 1986-87, became unfit for distillation due to defective storage facilities.

(8) No control records in respect of the amounts required to be deposited and actually deposited in the Molasses Fund by the sugar factories during 1974-75 to 1986-87 were maintained by the Controller of Molasses.

(9) Test check of 21 sugar factories revealed that year-wise records of storage wastages in excess of 2 per cent of total

quantity stored were not kept. Prescribed penal proceedings were not initiated against the defaulting units.

(10) Although Khandsari molasses produced in the State was about 70 per cent of the production of sugar factory molasses and contained higher percentage of fermentable sugar which could almost double the State's production of alcohol, Government has not prescribed so far (February 1989) any control on the Khandsari molasses in spite of the matter being under consideration of Government since October 1977. Report of the Working Group on storage of Molasses (1983) and Punia Committee Report (September 1987) have also recommended regulation and control over the price, uses and movements of Khandsari molasses as has been done in the States of Andhra Pradesh and Punjab.

(11) Due to defective planning of the off-take of alcohol from the distilleries in the State, the percentage of utilisation of the installed capacity ranged from 40 to 53 during 1981-82 to 1986-87.

(12) Non-lifting of alcohol by two industrial units, one in West Bengal and other at Bareilly, resulted in accumulation of unsold stocks of alcohol in distilleries. Even the efforts of the State Government to export this stock at lower price failed on

account of high rate of export pass fee on alcohol fixed by the Government.

(13) During the three years period 1982-83 to 1984-85, 461 samples of molasses, received from the state distilleries for chemical analysis, were left un-analysed by the Alcohol Technologist, whereas the samples received during the subsequent three years 1985-86 to 1987-88 were tested and analysed. No time schedule was observed.

(14) Analysis of 1,312 composite samples by the Alcohol Technologist during 1982-83 to 1986-87 revealed short production of 199.93 lakh alcoholic litres of spirit. Loss of duty involved in these cases at the lowest rate was approximately Rs.13.49 crores. In spite of the recommendations of the Public Accounts Committee on paragraph 3.2 of the Audit Report 1981-82, no penal actions were initiated by the department against the defaulting units.

The results of test check conducted during July 1987 to April 1988 are summarised in the succeeding paragraphs.

3.2.5. System and procedural defects

3.2.5.1. Lack of direct control over issue of molasses from sugar factories and its receipt by consignees

The Controller of Molasses has no direct control either on issue of molasses

from a sugar factory or on its receipt by the consignee distillers/other industrial licensees. Rule 25 of the Uttar Pradesh Sheera Niyamtran Niyamavali, 1974 provides for issue of gate pass (M F 4) either by the occupier of a sugar factory or by an officer, authorised by the Controller of Molasses, for issue of molasses but, before the actual removal of molasses, a copy of the gate pass is required to be handed over to the sub-Inspector of Excise posted at the factory.

The department has only 59 Sub-Inspectors of Excise to look after the working of 102 sugar factories in the State, and it is generally seen that in most of the cases issue of gate pass is left entirely to the occupier of sugar factory. Although rules contemplate that actual receipt by the consignee should be recorded on the back of the gate pass and transit losses should in no case exceed one per cent (except in case of accident etc.), in practice no reconciliation is done between the quantities of molasses issued by the consignor and received by the consignee. As regards further action to be initiated on detection of wastages in transit beyond one per cent or on non-receipt of verified gate passes, the rules are silent.

In test check, it was noticed that, out of 21,586 gate passes issued by seven sugar factories during the period 1981-82 to 1986-87, 6,737 gate passes (30 per cent) were

not received back (February 1988) duly verified by the consignees. In 125 cases, as per information made available to audit. 18,299.10 quintals of molasses were involved.

In one case at Gola (Lakhimpur Kheri), the sugar factory issued 19,676 quintals of molasses during January to March 1982 through pipeline to its sister distillery unit which acknowledged receipt of 22,801 quintals, i.e., 3,125 quintals in excess of the quantity actually mentioned on the gate pass. In absence of any provision in the rules for checking of verified passes by the official of the department, the discrepancy could not be noticed and no action was initiated either against the sugar factory or the distillers. Excess issue of 3,125 quintals was included by the sugar factory in their storage wastage of molasses.

3.2.5.2. Irregularities in maintenance of molasses accounts

As per rule 32 of the Uttar Pradesh Sheera Niyamtran Niyamavali, 1974, the occupier of every sugar factory is required to maintain an accurate daily account of molasses produced, stored, issued, sold or wasted in a register in form M F 5 and to work out the total in all the columns of the register (in form M F 5) fortnightly on the 15th and last working day of each month and

send an extract thereof to the Controller of Molasses on 1st and 16th of the month in the prescribed forms MF 1 and MF 2. But in practice the said procedures are not being followed. The actual physical balance as per dip taken is recorded directly in the fortnightly/monthly statements sent to the Controller of Molasses/Excise Commissioner.

In two sugar factories (Rae Bareli and Deoria), it was noticed (October 1987 and March 1988) that, as a result of actual measurements taken on 31st December 1982 and 16th June 1984 (at Rae Bareli) the excess quantity of molasses as per actual measurement ranged between 326 and 634 per cent, whereas at Deoria, on five dates between 24th March 1985 and 9th November 1987, the excess quantity as per actual measurement ranged between 123 and 1,962 per cent, as depicted in the table given below:

<u>Unit</u> <u>Date</u>	<u>Quantity as per</u> <u>Accounts</u>	<u>Actual</u> <u>measur-</u> <u>ement</u>	<u>Excess</u> <u>molasses</u> <u>as per</u> <u>actual</u> <u>measure-</u> <u>ment</u> (3-2)	<u>Estimated</u> <u>quantity of</u> <u>excess</u> <u>Sugar-Sugar</u> <u>cane prod-</u> <u>uced</u>	
(1)	(2)	(3)	(4)	(5)	(6)
	(In quintals)		(In lakh quintals)		
<u>Rae Bareli</u>					
31st Dec. 1982	4932.90	21026.50	16093.60 (326)	4.02	0.38

(92)

(1)	(2)	(3)	(4)	(5)	(6)
16th June 1984	7231.45	53088.45	45857.00 (634)	11.46	1.15
<u>Deoria</u> 24th March 1985	80.00	500.00	420.00 (525)	0.11	0.01
5th April 1985	19.00	392.00	373.00 (1,962)	0.10	0.01
14th Nov. 1986	762.00	1700.00	938.00 (123)	0.23))))	0.26
23rd Nov. 1986	98.00	313.00	215.00 (221)	0.05)	
9th Nov. 1987	1120.00	3927.00	2807.00 (250)	0.70	0.07
			Total	<u>16.67</u>	<u>1.88</u>

(In column 4, the figures within brackets denote percentage of column 4 to column 2.)

The amount of purchase tax on estimated excess sugarcane crushed and excise duty payable on the estimated excess

sugar produced works out to Rs.16.67 lakhs (at the rate of Re. 1 per quintal) and Rs.97.76 lakhs (at the minimum rate of Rs.52 per quintal of sugar) respectively in the two cases alone cited above.

Test check of records also revealed that no uniform practice was followed by the sub-Inspectors of Excise posted at the sugar factories in this regard. Sometimes the difference as per actual measurement was taken into account by increasing the quantity of molasses as shown in form MF 5 and additional excise duty realised on this account, whereas in many cases the excess quantity was continued to be left un-accounted for, without realisation of any duty or administrative charge due in such cases. Further, in no case, account of sugarcane crushed and sugar produced was amended accordingly.

The department was receiving these returns regularly, but no action was initiated in respect of the abnormal differences which ranged between 123 and 1,962 per cent during the above period, revealed as a result of actual measurements.

The factory occupier contended that high incidence of 'foaming' accounts for such abnormal storage variations. This is, however, not acceptable, in the absence of any norms of allowance for foaming.

3.2.6.1. Production of molasses in sugar factories and its distribution

The figures of production of molasses and its distribution amongst distilleries, industrial units and others for the last five molasses years ending 1986-87 are shown in the table given below:

Molasses year (November to October)	Quantity brought forward from previous year	Production during the year	Total (2+3)	Was-tage	Net quantity available for distribution (4-5)
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(1)	(2)	(3)	(4)	(5)	(6)
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(In lakh quintals)

1982-83	30.45	85.38	115.83	2.15	113.68
1983-84	37.12	76.42	113.54	2.50	111.04
1984-85	13.40	67.99	91.39	0.74	80.65
1985-86	4.81	73.36	76.17	0.35	77.82
1986-87	9.16	132.40	141.56	0.41	141.15
Total	<u>94.94</u>	<u>435.55</u>			<u>523.74</u>

Quantity lifted by distilleries	Quantity distributed/other ex-Port	Quantity distributed by others	Total (8+9)	Total quantity distributed/lifted (7+10)	Quantity declared unfit for distribution (drained out, released or removed)	Balance of molasses left in stock 6- (11+12)
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(7)	(8)	(9)	(10)	(11)	(12)	(13)
(In lakh quintals)						
59.86 (53)	0.83	0.10	0.93	60.79	15.77 (14)	37.12 (33)
68.95 (52)	8.42	4.47	12.89	81.84	15.80 (14)	13.40 (12)
65.92 (82)	0.47	1.56	2.03	67.95	7.89 (10)	4.81 (6)
65.49 (84)	..	0.90	0.90	66.39	2.27 (3)	9.16 (12)
77.96 (55)	..	2.58	2.58	80.54	11.83 (8)	48.78 (35)
<u>338.20</u>				<u>357.61</u>	<u>53.56</u>	

(In columns (7), (12) and (13), the figures within brackets denote percentage to column (6) in each case)

(i) The above table shows that production of molasses declined from 85.38 lakh quintals during the year 1982-83 to 73.36 lakh quintals in the year 1985-86. In the year 1986-87, the production rose to 132.40 lakh quintals (i.e., increase of 80 per cent of the previous year production). At the end of the molasses year 1986-87, the

stock left undistributed was as high as 48.78 lakh quintals, i.e., 35 per cent of the quantity available for distribution. Due to improper storage of molasses, 53.56 lakh quintals of molasses became unfit for distillation during the period 1982-83 to 1986-87.

Contrary to the allotment rules, in one case (Deoria), 2,026 quintals of molasses were despatched (April 1986) to the distillery at Sardarnagar (Gorakhpur) without the allotment orders of the Controller.

3.2.6.2. Losses due to inadequate storage facilities

According to the Uttar Pradesh Sheera Niyantaran Adhiniyam, 1964 and the rules framed thereunder, the responsibility for proper and scientific storage of molasses devolves on the sugar factories. The occupier of a sugar factory shall provide adequate safeguards against leakage, seepage, overflow or any other accident likely to damage the quality of molasses stored in the factory. It is required to be stored in covered accommodation and it should be such as to store at any one time at least 50 per cent of the total production of molasses, calculated at 4 per cent of the total

sugarcane that can be crushed in 140 working days according to the full registered cane crushing capacity of the factory or 50 per cent of the highest total production of the last four years, whichever is higher.

For provision and maintenance of adequate storage facilities, a separate fund, called 'Molasses Fund', has been created to which a fraction, as determined and notified (April 1975) by the Controller of the Molasses, of sale proceeds of molasses is required to be credited by the occupier of sugar factory. The present rates are as follows:

Grade of molasses	Rate
I	33 paise per 100 kilograms
II	23 paise per 100 kilograms
III	20 paise for every 40 kilograms of reducing sugar contents therein

A few irregularities, noticed during test check in this regard, are indicated below:

(a) According to the data supplied by the department (March 1988), 58 sugar factories (57 per cent) out of 102 sugar factories had shortage of covered storage capacity to the extent of 10.61 lakh quintals as on 31st October 1987 (53.57 lakh quintals against the required capacity of 64.18 lakh quintals). As a result of shortage of storage capacity, the State was deprived of potential revenue of Rs.1.40 crores by way of export pass fee (computed at the lowest rate of 50 paise per bulk litre) on industrial alcohol which would have been obtained from distillation of 11.83 lakh quintals of molasses which was declared unfit for distillation or drained out or removed as below grade during the molasses year 1986-87 alone. Besides, the factories which were generally running in losses or experiencing financial stringencies, were deprived of the contribution from this valuable by-product.

(b) The provisions of the Act/Rules require that no occupier of a sugar factory shall adulterate or allow to be adulterated any molasses produced or held in stock. The presence of any molasses in any storage tank of a sugar factory having less than 40 per cent sugar contents shall be deemed to be a sufficient cause to raise a presumption that the occupier of the

sugar factory had adulterated molasses or allowed it to be adulterated.

(i) In contravention of the above mentioned provisions, it was noticed that in four sugar factories, 0.36 lakh quintals of molasses pertaining to the year 1982-83 and 0.29 lakh quintals produced during the year 1986-87 was allowed to be mixed with below-grade molasses of the earlier years kept in khachcha pits/ uncovered tanks. Thus, the entire quantity of 0.65 lakh quintals became unfit for distillation.

In case of another factory (Budaun), it was noticed that 0.12 lakh quintals of 'A' grade molasses of 1987-88 was mixed with 0.04 lakh quintals of 'B' grade molasses of earlier years, rendering the entire quantity of molasses unfit for distillation.

The adulteration in the above cases resulted in potential loss of revenue of Rs.9.59 lakhs which would have been realised in the shape of export pass fee leviable on the industrial alcohol produced out of molasses.

(ii) In 14 sugar factories, 4.05 lakh quintals of molasses pertaining to the period 1981-82 to 1986-87 became unfit for distillation due to mixing up of rain water

and seepage in kachcha pits/pucca open tanks which resulted in potential loss of revenue of Rs.47.96 lakhs.

(c) In 2 sugar factories, 0.26 lakh quintals of, stated to be below grade, molasses relating to the years 1981-82 and 1982-83 was drained out without the permission of the Controller of Molasses.

(d) In one sugar factory (Meerut), 0.10 lakh quintals of molasses had not been removed till March 1988 out of the factory premises although as per the date specified by the Controller of Molasses, it was to be removed by April 1984.

(e)(i) In one sugar factory (Faizabad), due to inadequate storage facilities/non-lifting of allotted quota of molasses by the concerned distilleries, 2.24 lakh quintals of molasses pertaining to the period 1981-82 to 1986-87 were removed from the factory premises and sold in the open market by the factory after obtaining orders of the Honourable High Court, Allahabad. This resulted in potential loss of revenue of Rs.26.53 lakhs.

(ii) In nine sugar factories, 3.82 lakh quintals of molasses pertaining to the period 1980-81 to 1986-87 was destroyed due to auto-combustion process caused by chemical reactions, as a result of

non-observance of adequate prescribed safeguards, i.e., chemical check-up by the occupiers of the sugar factories. The Controller of Molasses failed to take up the prescribed deterrent penal proceedings against the defaulters to avoid recurrence of such losses in future.

Molasses Fund

(f)(i) No control records were maintained by the Controller of Molasses in respect of the amounts required to be deposited and actually deposited by all the sugar factories of the State during 1974-75 to 1986-87. During test check, a perusal of the Molasses Fund Account Register maintained by the sugar factories revealed that as against Rs.68.99 lakhs required to be deposited by 10 factories during the years 1974-75 to 1986-87, a sum of Rs.38.52 lakhs only was deposited in the said Fund.

(ii) One sugar factory (Basti) was short of storage capacity by 20,000 quintals of molasses. A sum of Rs.5.89 lakhs was available in the Molasses Fund of the factory as in January 1988. Although the occupier was regularly pressing for sanctioning the said amount since September 1986 for erection of additional steel tank/covered pucca tank, the same was not sanctioned till the date of audit (March 1988).

(g) In contravention of the provisions of storage wastages (not to exceed 2 per cent of the total quantity stored in a sugar factory/distillery), the excess wastages as per data supplied by the department, ranged from 3 quintals to 1,66,000 quintals of molasses in the sugar factories during the period 1982-83 to 1986-87. However, test check in audit of 21 sugar factories revealed that yearwise records of storage wastages were not maintained in any of the factories. The department did not initiate any penal proceedings against the defaulting units, as required under rules.

In 6 distilleries test checked in audit, storage wastage in excess of 2 per cent was 1.27 lakh quintals during the period 1981-82 to 1986-87.

3.2.7. No control over the purchases, use and movement of khandsari molasses

The Uttar Pradesh State is the main producer of khandsari molasses in the country. In khandsari units, about 6 tonnes of khandsari molasses is produced on crushing 100 tonnes of sugarcane, whereas in sugar factories 4 tonnes of molasses is produced on crushing 100 tonnes sugarcane. During the period

1981-82 to 1985-86, about 28 lakh tonnes of khandsari molasses is estimated to have been produced in the State, which is estimated to be about 70 per cent of the production of the sugar factory molasses during the same period. Khandsari molasses contain about 60 per cent of fermentable sugar, whereas sugar factory molasses contain about 40 to 50 per cent of fermentable sugar. Thus, production of alcohol in the State can almost be doubled, if the entire production of khandsari molasses is regulated and subjected to distillation.

A comparative data given below establishes the fact that production of alcohol from the estimated khandsari molasses in the State is almost equal to alcohol obtained from the sugar factory molasses.

Year	Sugar factory molasses		Estimated [*] Khandsari molasses		Percentage of column
	Production of molasses (In lakh tonnes)	Alcohol obtained (In lakh litres)	Production of molasses (In lakh tonnes)	Alcohol obtained (In lakh litres)	
(1)	(2)	(3)	(4)	(5)	(6)
1981-82	10.849	1578.46	4.83	1449	92

* Figures taken from Punia Committee Report published in September 1987.

(1)	(2)	(3)	(4)	(5)	(6)
1982-83	8.538	1598.65	5.41	1623	102
1983-84	7.542	1792.62	5.84	1752	98
1984-85	6.700	1632.87	5.46	1638	100
1985-86	7.330	1475.70	6.13	1839	125

Audit had pointed out the need to bring under control the molasses produced by khandsari units (paragraph 4.13 of the Audit Report on Revenue Receipts for the year 1976-77). The Report of the working Group on Storage of Molasses had also recommended (December 1983) that the States which have not so far controlled khandsari molasses may do it now as it had been done by the Governments of Andhra Pradesh and Punjab.

A high power committee, set up by the State Government (on 24th March 1987) under the Chairmanship of Sri P.L.Punia, Managing Director of Pradeshia Industrial and Investment Corporation Limited, Uttar Pradesh, had also strongly pleaded (September 1987) for introduction of control over the production, price, use and movement of khandsari molasses. In explanation to the Public Account Committee's observations in October 1977, Government had stated that introduction of control in respect of units numbering about 5,000 and spread over the entire State was under their consideration.

According to the Punia Committee Report, the desirability of introducing such measures was stressed in view of the fact that even sugar factory molasses was being exported outside the State in the garb of khandsari molasses. Some of the khandsari molasses also went into illicit distillation. But no such control has however, been introduced in the State as yet.

In this connection it is also observed that about 40 per cent of the khandsari units in the State were using subphitation process for production of white khandsari sugar and were crushing about 70 per cent of the total sugarcane crushed by khandsari units. Non-edible khandsari molasses, produced by such units, could be used only for alcohol production. Distillation of non-edible molasses could produce almost 70 per cent of the present alcohol produced from sugar factory molasses.

3.2.8.1. Accumulation of stock of alcohol in distilleries leading to non-utilisation of full installed capacity

- (i) The State of Uttar Pradesh is the biggest producer of alcohol in the country. Its distilleries have total production

capacity of 372.07 million litres of alcohol per annum. The distilleries use molasses, a by-product, produced by 102 sugar factories in the State. The production of alcohol in the State increased (32.5 per cent) from 120 million litres in 1974-75 to 160 million litres in 1984-85. The use-wise pattern of distribution of alcohol in 1981-82 was 19.41 million litres by alcohol based industrial units in the State itself, 37 million litres used for potable purposes and 57 million litres were exported outside the State. In 1983-84, the State exported 59.27 million litres of alcohol which was the highest export figure. The export, however, came down to 28.09 million litres in 1984-85.

(ii) Test check in audit of 13 distilleries revealed that installed capacity was not utilised to the extent ranging between 60 and 47 per cent during the year 1981-82 to 1986-87, as shown below:

Year	Installed capacity	Quantity of alcohol produced	Percentage of installed capacity not utilised
(1)	(2) (In lakh litres)	(3)	(4)
1981-82	2993.12	1578.9	50.0
1982-83	3164.94	1599.5	49.5
1983-84	3380.42	1795.9	47.0

(1)	(2)	(3)	(4)
1984-85	3589.00	1592.2	55.6
1985-86	3720.00	1475.7	60.0
1986-87	3720.00	1724.41	53.7

Four of the 13 distilleries, namely Gola, Hargaon, Daurala and Seohara were producing industrial alcohol which is mainly exported outside the State. In case of Gola (Kheri) distillery, the utilisation of installed capacity came down from 52 per cent in 1981-82 to 37 per cent in 1986-87, were as in case of Daurala the utilisation capacity came down from 44 per cent in 1981-82 to 25 per cent in 1986-87.

The main reason for non-utilisation of full capacity, as intimated by one of the distilleries, was non-lifting of industrial alcohol by alcohol based industries in the State as well as high export pass fee as compared to Maharashtra and Andhra Pradesh, the other two main alcohol producing States in India. It was further stated that in the current year (1987-88) there was again glut of alcohol as well as of molasses and unless off-take is assured, the problem of utilisation of molasses cannot be solved.

In this context a Committee appointed by the Government of U.P. under the Chairmanship of Shri P.L.Punia, for

working out a long term perspective plan for development of molasses and alcohol based industries, distilleries and breweries, in its Report submitted to Government in September 1987 had observed that uncertainty of price, fluctuation of tax structure and absence of clear cut long term policy resulted in dumping of stock of alcohol in the State of Uttar Pradesh. The Committee also mentioned that a few other States like Punjab, West Bengal and Madhya Pradesh had already taken action to augment their own distillation capacities by installing plants based on beet-root and maize to meet out their requirements of alcohol. Rajasthan was also setting up distillery based on beet-root and Himachal Pradesh had proposed to produce alcohol from citrus fruit. It was apprehended by the Committee that once these States establish their own production facilities, they would no longer be dependent on Uttar Pradesh for supplies of alcohol and this would also go to deepen the crisis of accumulation of alcohol in the State of Uttar Pradesh.

3.2.8.2. Composite sample of molasses sent for chemical examination remained unexamined

The U.P.Excise Working of Distilleries (Amendment) Rules, 1978 prescribe that

every quintal of fermentable sugar present in molasses should yield at least 52.5 litres of alcohol. For this purpose, composite samples of molasses were to be drawn by the officer in-charge of the distillery and sent for examination to the Chemical Examiner, Government of U.P. Agra or to the Alcohol Technologist, Harcourt Butler Technological Institute (H.B.T.I.) Kanpur for determining the percentage of fermentable sugar. As per time schedule fixed by the department, the report on the samples was required to be sent back to the officer in-charge of the concerned distillery within one month from the date of its receipt. Failure to maintain minimum yield of alcohol from molasses consumed would entail cancellation of licence and forfeiture of security deposit of the distiller concerned in addition to any other penalties leviable under the U.P. Excise Act, 1910.

Test check in audit (March 1988) of records and data furnished by the Excise Commissioner, U.P. revealed that no control records in respect of distillery-wise and year-wise samples drawn and due for testing at the Alcohol Technologist was kept by the department. However, the data/information supplied by the Excise Commissioner, U.P., for the period 1982-83 to 1987-88, revealed that 461 samples for

the years 1982-83 to 1984-85 sent for chemical examination were not examined, whereas the samples relating to the years 1985-86 to 1987-88 were stated to have been tested and returned.

3.2.8.3. Penalty proceedings not initiated against defaulters

The data relating to the period 1982-83 to 1986-87 furnished by the department revealed that, on the basis of the Chemical Examiner's report, in 1,312 composite samples production of alcohol was short by 199.92 lakh alcoholic litres as compared to the minimum expected yield. Failure to maintain the minimum prescribed yield in these cases resulted in potential loss of revenue which worked out to Rs.13.49 crores.

Mention was made in paragraph 3.2 of the Audit Report on Revenue Receipts for the year 1981-82 about laying down time schedule for despatch of samples for analysis, completion of analysis and initiation of action based on the analysis report. The Public Accounts Committee, while discussing the said paragraph, recommended (in its report placed before the Legislature in August - September 1986) forfeiture of security money of the distillers and cancellation of their

licences. In spite of the said recommendations, the department did not take any action against the defaulting distillers till the date of audit (March 1988).

The foregoing points were reported to the department and Government in July 1988; their replies have not been received (April 1989).

3.3. Short realisation of duty on export of plain spirit

Under the U.P. Excise Act, 1910 and the rules framed thereunder, for the purposes of levying excise duty, liquor is categorised either as country liquor or as foreign liquor. Liquor manufactured through distillation, falling in the category of country liquor, may be plain spirit, spiced spirit or outstill liquor and that falling in the category of foreign liquor may be whisky, brandy, rum, gin, rectified spirit or denatured spirit, spirit having strength below 60° O.P., i.e., containing alcohol less than 91.27 per cent by volume is termed as plain spirit and that having strength of 60° O.P. and above as rectified or denatured spirit. These spirits, viz., plain spirit of strength below 60° O.P. and rectified or denatured spirit having strength of above the prescribed limit of 42.8 per cent by

volume are not fit for human consumption. Plain spirit of strength of below 60° O.P. is manufactured from molasses as well as from malt, grape and apple.

In their notification dated 28th April 1986, the State Government prescribed the rates of duty for export of country liquor (excluding tari and fermentable alcoholic beverages) and foreign liquor (excluding beer and spirit not fit for human consumption) at Rs.10.65 and Rs.7.50 per alcoholic litre respectively.

(a) In a distillery at Nawabganj (Gonda), it was noticed (May 1987) that during the period May 1986 to April 1987, 2,00,901.8 alcoholic litres of plain spirit (prepared from malt) of strength of below 60° O.P., which was not fit for human consumption and which fell in the category of country liquor, was exported out of Uttar Pradesh. The export duty on this quantity of malt spirit was realised in accordance with various orders of the Excise Commissioner, Uttar Pradesh at the rate of Rs.7.50 per alcoholic litre, instead of at the correct rate of Rs.10.65 per alcoholic litre. Incorrect application of rate of duty on export of the so called malt plain spirit of strength of below 60° O.P. resulted in short realisation of duty to the tune of Rs.6.33 lakhs.

On this being pointed out in audit (July 1987), the department stated (November 1987), that malt spirit is manufactured for making foreign liquor only, which, even being plain spirit of strength of below 60° O.P., is treated as foreign liquor. It was stated further that export duty at the rate of Rs.7.50 per alcoholic litre was leviable on export of malt spirit (treated as foreign liquor) of strength of below 60° O.P., as laid down in the notification of 28th April 1986.

The contention of the department is not tenable in view of the fact that the categorisation of liquor is done on the basis of its nature and alcoholic contents and not on the basis of the purpose for which it is intended to be used. The spirit of strength of below 60° O.P. and unfit for human consumption, manufactured either from molasses or malt, is plain spirit and falls in the category of country liquor. It was also seen in audit subsequently that as per Excise Commissioner's order dated 14th October 1988, the department has started charging export duty at the rate of Rs.10.65 per alcoholic litre on malt plain spirit below 60° O.P.

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

(b) Similarly, in a distillery at Ghaziabad, it was noticed (August 1986) that during the period May 1986 to July 1986, 1,18,656.4 alcoholic litres of plain spirit, prepared from malt having strength of below 60° O.P., was exported out of the State, which was not fit for human consumption and fell in the category of country liquor. A further scrutiny (July 1987) revealed that during August 1986 to June 1987, 1,95,274.5 alcoholic litres of similar spirit (1,92,091.5 A.L. prepared from malt, 1,146.0 A.L. prepared from grape and 2,037.0 A.L. prepared from apple) was again exported out of the State. The export duty on the said plain spirit aggregating 3,13,930.0 alcoholic litres was realised at the rate of Rs.7.50 per alcoholic litre, instead of at the correct rate of Rs.10.65 per alcoholic litre. Incorrect application of rate of duty resulted in short realisation of duty amounting to Rs.9.89 lakhs.

The matter was reported to the department in October 1986 and to Government in March 1987; their replies have not been received (April 1989).

3.4. **Loss of licence fee and issue price due to delayed settlement of excise shops**

of	Under the Uttar Pradesh Settlement	
	Country	Liquor Licence

(Tender-cum-Auction) Rules, 1985, licence fee (in addition to duty leviable under the U.P.Excise Act, 1910) in consideration of the grant of licence for the retail vend of country liquor is chargeable in two ways, partly in the form of 'Issue price' of the liquor to be lifted, calculated at the rate notified by the Excise Commissioner from time to time and partly in the form of bid amount obtained in auction. A minimum guaranteed quantity of liquor to be lifted and the rate of 'Issue price' is fixed by the Excise Commissioner before the auction is held for an excise year. The licensee is also required to deposit a sum equal to 1/4th of the bid offered as security on the acceptance of his bid.

In District Excise Office, Pratapgarh, the auction of four shops of country liquor and bhang of Babuganj group for retail vend was held on 26th March 1987 for the excise year 1987-88 and highest bid offered was Rs.56,000, which was equal to the licence fee for the above group of shops in the preceding year. This bid was rejected by the Collector. The auction was again held on 27th March 1987, in which the highest bid remained the same. This was also rejected by the Collector. The Collector, in his letter dated 27th March 1987 to the Excise Commissioner, proposed cancellation of

these shops stating that highest bid offered by the bidder, who was a licensee in the preceding year, was inadequate and loss of revenue involved in cancellation of shops was negligible. The Excise Commissioner, in his reply (2nd April 1987), stressed settlement of shops at best available bid to avoid any loss of issue price. Subsequently, auction was held on 9th April 1987 which was again rejected by the Collector. The Excise Commissioner once again, on 14th May 1987, stressed settlement of shops at the best available bid to avoid loss of Government revenue. The shops were finally auctioned on 7th August 1987, in which highest bid offered was Rs.36,855 (Rs.36,600 for country liquor and Rs.255 for bhang). During 1st April 1987 to 7th August 1987, no arrangements were made to run the shops on day to day basis or departmentally, as provided under the rules.

Further, due to late settlement of shops (August 1987), the minimum guaranteed quantity of country liquor to be lifted (72.130 bulk litres), involving issue price of Rs.6.83 lakhs for these shops, was reduced to 41.420 bulk litres, which fetched the issue price of Rs.4.55 lakhs only.

Non-acceptance of the earlier bids of much higher value in spite of the

advice of the Excise Commissioner resulted in loss of revenue amounting to Rs.2.47 lakhs (licence fee: Rs.19.145 and issue price: Rs.2.28 lakhs).

The matter was reported to the department in November 1987 and to Government in January 1988; their replies have not been received (April 1989).

3.5. **Non-realisation of differential loss from original licensee**

Under the U.P. Excise Act, 1910 and the rules framed thereunder as amended in the year 1985, the licensee of country liquor shop is required to deposit issue price (nirgam mulya) of prescribed monthly minimum guaranteed quota of liquor by 5th of that month. If issue price of any month is not remitted in full by the due date, the amount of deficit payment shall be deducted from the security deposit paid at the time of settlement of the shop in public auction and adjusted against the deficit issue price. The licensee shall be called upon to make good the amount so deducted from the security by 20th of the month in which default in payment of issue price is made. In case the licensee fails to make good the amount adjusted from security deposit within the prescribed time, his

licence shall be liable to cancellation and alternative arrangement is required to be made for running the shop at the risk and responsibility of the original bidder. If no bidder comes forward and the shop cannot be reauctioned, even then, the financial loss, if any, is recoverable from the old licensee as arrears of land revenue.

At Hamirpur, for the year 1986-87 one country liquor shop of surha was settled by auction at the highest bid of Rs.12,500. The annual minimum guaranteed quota of this shop was fixed by the Excise Commissioner at 21,290 bulk litres for the whole year. The issue price of the quota worked out to Rs.1.44 lakhs which was required to be paid by the licensee in addition to the abovementioned bid money. The licensee, however, failed to deposit the issue price from the beginning of the year, viz., April 1986. The licence was cancelled by the Collector in June 1986. However, due to non-availability of bidders, the shop could not be settled in reauction. Arrangements to run the shop on daily basis was made for the rest of the licence period and only 3,899 bulk litres of country liquor were lifted by the licensees who run the shop on daily arrangement basis fetching issue price amounting to Rs.25,390. Security deposit of

Rs.6,500 made by original licensee was adjusted against the pending licence fee. No action was, however, taken by the department for realising the differential amount of Rs.1.25 lakhs (licence fee: Rs.6,000; issue price: Rs.1.19 lakhs) from the original licensee.

On this being pointed out in audit (May 1987), the department stated (April 1988) that recovery of the differential amount was being made as arrears of land revenue and that the District Excise Officer, Hamirpur was being directed to expedite it. Report on recovery has not been received (April 1989).

Government, to whom the report was reported in January 1988, ended (1988) the department's reply progress of recovery would be

3.6. Non-realisation

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from any place within the Indian Union as approved by the Government of Uttar Pradesh. The foreign liquor so stored in the bonded warehouse may either be sold on payment of duty to the wholesale vendors of foreign liquor or issued in bond to any other bonded warehouse in the State. The licence is granted on deposit of security of Rs.25,000 and on payment of Rs.30,000 as licence fee for the period not exceeding one year and ending on 31st March following the date of grant. Such a licence may be renewed on a year to year basis on payment of licence fee of Rs.30,000.

In the course of audit of Mohan Meakin Distillery at Lucknow, it was noticed (April 1986) that foreign liquor, manufactured and bottled there, was issued in bond without payment of duty for storage in the bonded warehouse at Bareilly for which a licence was obtained by Mohan Meakin Distillery, Mohannagar, Ghaziabad under the above mentioned Rules. This licence was issued for the period from 1st April 1983 to 31st March 1984. The words "For sale of Mohan Meakin products only" were superscribed on the licence later on 17th February 1984 under the signature of the Excise Commissioner, Uttar Pradesh. The licence was subsequently renewed for the years 1984-85 and 1985-86.

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It was noticed that Excise Officer of Mohan Meakin Distillery at Lucknow, which was a separate unit manufacturing and bottling its foreign liquor under a separate licence, granted passes permitting issue of Indian made foreign liquor manufactured by this distillery, under bond (without payment of duty) to the bonded warehouse at Bareilly against the licence issued to Mohan Meakin Distillery, Ghaziabad, which was irregular. This resulted in loss of licence fee amounting to Rs.90,000, as a separate licence was required to be issued in the name of Mohan Meakin Distillery, Lucknow for the years 1983-84 to 1985-86.

On this being pointed out in audit (May 1986), the department stated (August 1988) that the entire amount of licence fee, viz., Rs.90.000, had been realised from the distillers on 1st August 1988 by appropriating the advance money deposited by them towards still head duty and export duty.

The matter was reported to Government in April 1988; their reply has not been received (April 1989).

3.7. Non-payment of licence fee and interest thereon

Under the U.P.Excise Act, 1910 and the rules framed thereunder, licence

fee for working a distillery is payable, in advance, at the prescribed rate on the yearly installed production capacity of the distillery for the year or part thereof for which licence is granted. No alteration or addition in or to the existing building or addition in or to such stills and other permanent apparatus can be made without prior approval of the Excise Commissioner.

The installed production capacity of a distillery at Meerut was increased from 25,500 kilolitres to 45,000 kilolitres in December 1982. The distiller was, therefore, liable to pay the licence fee at the rate of Rs.2.50 per kilolitre on the difference of 19,500 kilolitres (45,000-25,500) for the year 1982-83 which amounted to Rs.48,750, but it was not realised.

On this being pointed out in audit (November 1982), the department stated (July 1987) that the said amount had been deposited by the distiller in February 1987.

In terms of Section 38-A, inserted by Uttar Pradesh Excise (Amendment) Act, 1985, the distiller was also liable to pay interest amounting to Rs.16,640 for the period from 29th March 1985 to 20th February 1987 (date of payment). The omission to levy interest was brought to

the notice of the department in January 1988. The department recovered the full amount of interest in April 1988.

3.8. Non-realisation of interest on belated payments

Where any excise revenue, as per provisions of the U.P.Excise Act, 1910 as amended from 29th March 1985, is not paid within three months from the date it became payable, interest at the rate of 18 per cent per annum is recoverable from the date such excise revenue becomes payable till the date of actual payment. In respect of excise revenue which became payable before the date of commencement of the said amendment, viz., 29th March 1985, interest at the said rate is to be charged from 29th March 1985, if the excise revenue is not paid within three months of the date of the amendment, viz., 29th March 1985.

(i) In Lucknow, excise revenue comprising assessment fee and licence fee to the tune of Rs.7.54 lakhs, payable by various licensees in respect of period prior to 29th March 1985, was paid after delay ranging from about five months to two years reckoned from 29th March 1985. Interest amounting to Rs.1.25 lakhs was leviable on these belated payments but was not levied and realised.

The matter was reported to the department in September 1987 and to Government in January 1988; their replies have not been received (April 1989).

(ii) In Gonda district, arrears of licence fee relating to the years 1977-78, 1978-79 and 1982-83 amounting to Rs.2.35 lakhs were due from three licensees. Out of this amount, a sum of Rs.82,916 had been paid after delays ranging from 138 days to 696 days, reckoned from 29th March 1985. Interest amounting to Rs.25,485 was leviable on these belated payments, but it was not levied and realised.

On this being pointed out in audit (June 1987), the department stated (July 1988) that interest amounting to Rs.2,201 had since been recovered from one licensee in July 1987 and demand notice for Rs.18,037 had been issued against another licensee. Report on recovery of Rs.18,037 and final reply in respect of the third licensee has not been received (April 1989).

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

3.9. Non-realisation of duty on excess quantity of alcohol used in medicinal and toilet preparations

Excise duty on medicinal or toilet preparations manufactured in pharmacies is charged on the basis of its alcoholic contents, as disclosed by manufacturers in respect of each batch of such preparations. After the preparation of each batch, its sample is required to be sent to the Chemical Examiner for analysis of its alcoholic content. If the actual alcoholic content is found to be in excess of the disclosed content by more than 2.00 proof degree (1.2 per cent by volume), extra duty, leviable on the stock already disposed of in between the date of manufacture and the date of receipt of the Chemical Examiner's report, is recoverable from the manufacturers and recovery is to be made after obtaining sanction of the Excise Commissioner.

In respect of bonded pharmacies situated in Ghaziabad, Lucknow, Meerut and Kanpur districts, the statements on excess quantity of alcoholic contents in various batches of medicines, as per the analysis report of the Chemical Examiner, were submitted between November 1968 and January 1987 to the Excise Commissioner, Uttar Pradesh for his sanction for

realising the excise duty amounting to Rs.52,885. It was, however, noticed (between December 1985 and November 1987) that orders of the Excise Commissioner for realisation of the excise duty had not been issued even after lapse of periods ranging from nine months to nineteen years since the submission of the statements by the Excise Officer concerned to the Excise Commissioner, U.P. It was also noticed in audit that the rules do not provide for any time schedule for sending samples for chemical examination, receipt of report from the Chemical Examiner and raising demands after the receipt of report from the Chemical Examiner.

On this being pointed out in audit (between December 1985 and November 1987), the department stated (July 1988) that a sum of Rs.52,998 had since been adjusted from the advance deposits made by these pharmacies. The incidence, however, indicates absence of proper system or control in the office of the Excise Commissioner to watch the issue of sanctions for realising deficient excise duty.

The case was reported to Government in March 1988; their reply has not been received (April 1989).

3.10. Non-realisation of compounding fee

The U.P.Excise Act, 1910 and the

rules framed thereunder provide that any Excise Officer, empowered by the State Government, may compound the cases of cancellation or suspension of licence or prosecution of a person committing an offence under the Act, on payment of compounding fee not exceeding Rs.5,000 in each case.

In Pratapgarh, Allahabad, Lucknow and Gonda districts, 706 offences were compounded by the concerned Excise Officers between May 1982 and October 1987 and compounding fee amounting to Rs.27,255 was levied, but the defaulters/offenders concerned were let off without realising the compounding fee. The fee remained unrealised even after periods ranging from seven months to seven and a half years.

On this being pointed out in audit (January 1988), the department stated (August 1988) that a sum of Rs.19,125 had since been realised. Report on recovery of the balance amount has not been received (April 1989).

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

CHAPTER 4

TAXES ON VEHICLES, GOODS AND PASSENGERS

4.1. Results of Audit

Test check of records of the various offices of the Transport Department, conducted in audit during the year 1987-88, revealed short levy of taxes amounting to Rs.68.27 lakhs in 187 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Short levy of passenger tax including additional passenger tax	87	44.67
2. Underassessment of road tax	24	5.43
3. Short levy of goods tax	13	4.89
4. Short levy of fees	25	4.08
5. Other cases	38	9.20
Total	<u>187</u>	<u>68.27</u>

A few important cases noticed during 1987-88 and earlier years are

mentioned in the succeeding paragraphs.

4.2. Short levy of fees

The State Government, through a notification issued on 30th March 1987, enhanced the rates of fees leviable under various provisions of the Uttar Pradesh Motor Vehicles Rules, 1940. The enhanced rates were effective from the date of publication of the Notification in the gazette. The said notification was published in the Gazette-Extraordinary dated 31st March 1987.

In the office of the Transport Commissioner, U.P., Lucknow, four Regional Transport Offices (Varanasi, Bareilly, Kanpur and Gorakhpur) and nine Sub-Regional Transport Offices (Etawah, Mirzapur, Sitapur, Ghaziabad, Aligarh, Mathura, Azamgarh, Rae Bareilly and Lakhimpur Kheri), fees in respect of permits, registration certificates, licences, fitness certificates etc. issued in 3,406 cases, between 31st March 1987 and 28th July 1987, were realised at old rates, instead of at the enhanced rates as notified on 30th March 1987. The mistake resulted in short realisation of fees amounting to Rs.3.35 lakhs.

On this being pointed out in audit (between April 1987 and October 1987), the

department stated that the short realisation of fees was due to late receipt of the Government Notification.

The cases were reported to Government in February 1988; their reply has not been received (April 1989).

4.3. Non-levy of registration fee on tractors

Under the U.P. Motor Vehicles Rules, 1940, tractors used solely for agricultural purposes were exempted from payment of registration fee. This exemption was withdrawn vide Government notification of June 1978, whereafter a registration fee at the rate of Rs.25 per vehicle up to 29th March 1987 and thereafter at the rate of Rs.75 per vehicle was leviable on such tractors.

In Kanpur region, registration fee amounting to Rs.28,725 on 383 tractors registered for agricultural purposes during the period from April 1987 to July 1987 was not levied.

On this being pointed out in audit (August 1987), the department started realisation of registration fee and notices for recovery of fees of Rs.28,725 were issued (August 1987).

The matter was reported to Government in December 1987; their reply has not been received (April 1989).

4.4. Non-realisation/short realisation of passenger tax on contract carriages

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam, 1962 and the rules framed thereunder, passenger tax is leviable at the rate of 16 per cent (with effect from 1st May 1979) of the fare payable to the operator of a contract carriage. For this purpose, the sum payable in respect of the hire of a contract carriage is treated as fare.

In Rae Bareli sub-region, sixteen vehicles of private operators were on contract with the Indian Telephone Industries Ltd. at Rae Bareli for the period from September 1986 to February 1987 for carrying staff members from their places of residence to the factory. It was noticed from a letter dated 20th March 1987 addressed by the said industry to the Regional Transport Officer, Rae Bareli that the operators were paid contract money of Rs.10.92 lakhs for the aforesaid period. The operators, however, did not submit any return for the said period nor paid passenger tax under lump sum agreement.

The department also did not initiate any action under Section 8(1) of the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam, 1962 to determine the sum payable by the operators by way of tax for the said period. This resulted in non-realisation of passenger tax amounting to Rs.1.83 lakhs for the period September 1986 to February 1987.

On this being pointed out in audit (July 1987), the department stated (July 1987) that demand notices would be issued to realise the tax. Further report has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

4.5. Non-levy of passenger tax on a contract carriage

Under the U.P. Motor Vehicles Rules, 1940 a private stage carriage means any motor vehicle constructed or adapted to carry more than 9 persons (excluding the driver) and used by or on behalf of the owner exclusively in connection with his trade or business or private purposes, but not for hire or reward. Private stage carriages are exempt from payment of passenger tax. The State Government, vide their notification dated 30th September 1962,

also exempted from payment of passenger tax, stage carriages owned by recognised educational institutions and used solely for conveyance of pupils to and from the institution. Passenger tax is, however, leviable on vehicles plying for hire or reward.

In Bulandshahr sub-region, a vehicle adapted to carry more than 9 persons (excluding driver) was registered as stage carriage on 23rd August 1984 in the name of an individual. It was noticed that this vehicle was plying under a contract with an Institute located at Khurja (district Bulandshahr) for carrying school children to and from the Institution. As the vehicle was not owned by any recognised educational institution but by an individual and plied on hire, it was liable to payment of passenger tax. But no passenger tax was paid or levied in respect of this vehicle. The passenger tax leviable amounted to Rs.72,047 for the period from 23rd August 1984 to 31st October 1987.

The matter was reported to the department in December 1987 and to Government in February 1988; their replies have not been received (April 1989).

4.6. Delay in fixation/implementation of revised rates of fare of city buses

The State Government, vide their

notification dated 3rd February 1986, had directed the State Transport Authority to revise and fix the rates of fare of buses (plying within the municipal limits as well as in the suburbs of cities), as specified in the notification. However, the Transport Commissioner issued instructions to all the Regional Transport Offices only on 6th December 1986 for fixation/implementation of revised rates of fare of city buses. Delay in implementation of orders resulted in loss of passenger tax amounting to Rs.1,37,350 in two regions alone, as indicated below:

(i) During audit of the office of the Transport Commissioner, U.P., Lucknow, it was noticed (June 1987) that in respect of 12 city buses, plying on the Ghaziabad-U.P. border (local route), assessment of tax continued to be done on the fare of 85 paise per passenger, instead of Rs.1.20 (revised rate), upto December 1986. This resulted in a loss of passenger tax amounting to Rs.72,576 during the period from February 1986 to December 1986.

(ii) In Dehradun region, in respect of 9 city buses, plying on the Dehradun-Cantt. route, the orders were implemented only with effect from 12th March 1987. The delay in revising the fare from 85 paise to Rs.1.20 paise per passenger resulted in loss of passenger tax amounting to Rs.64,774 from 3rd February 1986 to 11th March 1987.

The cases were reported to the department in July 1987 and April 1987 respectively and to Government in January 1988; their replies have not been received (April 1989).

4.7. Loss of revenue due to incorrect categorisation of transport vehicles

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam, 1962 and the rules framed thereunder, assessment of passenger tax depends, inter alia, on the number of one-way trips the stage carriages are authorised to make on the route during a particular period and fare payable for the entire route.

In Kanpur region, 7 mini buses, plying on the Bara 'Chauraha - Shrawan Khera route under the control of the Uttar Pradesh State Road Transport Corporation, were authorised to make 5 single trips per day and charge Rs.3.25 as fare for full route from 23rd October 1986. The passenger tax on these vehicles was, however, assessed provisionally on the basis of the distance of 4,000 kilometres, 80 per cent load factor and fare of Rs.2.80 per kilometre, treating the mini buses as contract carriages, instead of stage carriages. The incorrect categorisation of transport vehicles resulted in loss of

passenger tax amounting to Rs.57,477 during the period November 1986 to August 1987.

The matter was reported to the department in September 1987 and to Government in January 1988; their replies have not been received (April 1989).

4.8. Incorrect computation of lump sum passenger tax

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Niyamawali, 1962, assessment of passenger tax under a lump sum agreement depends, inter alia, on the number of one-way trips to be made or expected to be made by the stage carriage during the period for which the agreement is executed.

The Public Accounts Committee, in paragraph 167 of their Report for 1981-82, had recommended (in the context of paragraph 4.3 of the Audit Report on Revenue Receipts for the year 1978-79 regarding short levy of passenger tax as a result of computing number of trips on the basis of 75 days, instead of 90 days in a quarter) that in future passenger tax should be calculated on the basis of 30 days in a month in the whole of the State.

In spite of the said recommendations, the irregularities in computation of lump sum passenger tax

continued. Irregularity involving short levy of tax of Rs.1.52 lakhs was again pointed out in paragraph 4.3(a) of the Audit Report on Revenue Receipts for the year 1984-85, where the Regional Transport Officer had allowed payment of passenger tax by vehicle owners, based on trips calculated on lesser number of days (ranging from 78 to 82 days) in a quarter, giving allowance for break-downs and repairs of vehicles, although trips made should have been calculated on the basis of 90 days in a quarter.

It was further noticed in audit (between December 1985 and February 1989) that in Allahabad region and Ghazipur sub-region passenger tax was computed on the basis of trips made in lesser number of days (ranging from 72 to 81 days), instead of 90 days. This method was in violation of the rules as well as against the recommendation of the Public Accounts Committee made earlier. The incorrect method of computation deprived Government of passenger tax of Rs.25,660 (for various periods between February 1983 and February 1987) in respect of six stage carriages plying on two routes (Allahabad-Samshabad and Aaurihar-Mau).

The matter was reported to the department between February 1986 and April

1987 and to Government in August 1988; their replies have not been received (April 1989).

4.9. Short levy of passenger tax

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam, 1962 and the rules framed thereunder, passenger tax at the prescribed percentage of fare payable to the operators shall be levied on every passenger carried by a stage carriage and paid to the State Government in respect of his journey in Uttar Pradesh.

In Etawah sub-region, the fare for the Etawah-Bidhuna-Kachauraghat route was intimated (October 1983) to be Rs.6, including taxes, as per the survey report by Passenger Tax Superintendent. The net fare worked out to be Rs.5.05 on which passenger tax was to be realised, but the department had realised tax on the net fare of Rs.5 only. This resulted in loss of revenue amounting to Rs.22,837 during the period from October 1983 to July 1987.

On this being pointed out in audit (September 1987), the department stated (October 1988) that the differential tax worked out to Rs.22,678, out of which recovery of Rs.15,009 had since been effected and that efforts were being made to recover the balance amount.

The matter was reported to Government in February 1988; their reply has not been received (April 1989).

4.10. **Non-assessment of passenger tax for the period of currency of temporary permits**

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Niyamawali, 1962, lump sum agreement, entered into with an operator of a stage carriage for the payment of passenger tax, shall be valid for a period of ninety days or for the unexpired period of the currency of the permit, whichever is less.

In Bulandshahr sub-region, 19 stage carriages having temporary permits for four months were plying on the Sayana-Dankaur route and paying passenger tax under lump sum agreement. The operation of the vehicles on the route was stopped under orders of the High Court and the temporary permits were also required to be surrendered. None of the permit holders surrendered the permits and as such the Regional Transport Authority, Meerut ordered (March 1987) for the assessment and realisation of passenger tax for the currency of the permits. Passenger tax was, however, assessed and realised in

respect of only 12 stage carriages plying on the route. Non-assessment of passenger tax in respect of the remaining 7 vehicles for the currency of their permits resulted in non-realisation of revenue amounting to Rs.21,758 for the various periods between March 1986 and September 1986.

On this being pointed out in audit (November 1987), the Assistant Regional Transport Officer, Bulandshahr agreed to recover the amount by issuing demand notices. Report on recovery has not been received (April 1989).

The case was reported to Government in February 1988; their reply has not been received (April 1989).

4.11. Non-assessment or incorrect assessment of passenger tax on stage carriages plied during State employees' strike period

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam 1962, on every passenger carried by a stage carriage, a tax shall be levied and paid to the State Government at a rate equivalent to sixteen per cent of fare payable by such passenger to the operator of the stage carriage in respect of his journey in the State. During

the strike of State Government employees including the employees of the U.P.State Road Transport Corporation, local arrangements were made to maintain the normal flow of traffic by issuing temporary permits to the private operators for plying on notified routes.

(i) In Sitapur sub-region, 131 special temporary permits were issued to private operators, during 14th November 1986 to 28th November 1986, in order to provide alternative arrangements during the State Government employees' strike. Out of the 131 special temporary permits, passenger tax in respect of 30 permits valid for 6 days was not assessed, and in respect of the remaining 101 permits valid for 2 to 7 days, passenger tax was assessed short. The non-assessment/short assessment of passenger tax resulted in loss of revenue amounting to Rs.51,950

On this being pointed out in audit (April 1987), the Sub-Regional Transport Officer, Sitapur accepted (April 1987) the mistake and agreed to recover the amount by issuing demand notices to the concerned operators. Report on recovery has not been received (April 1989).

The matter was reported to Government in February 1988; their reply has not been received (April 1989).

(ii) In Etawah sub-region, 26 temporary stage carriage permits, having validity for 2 days, were issued to private operators between 18th November 1986 and 30th November 1986 for plying on notified routes in place of vehicles of the Uttar Pradesh Road Transport Corporation as an alternative arrangement. The department, however, erroneously assessed the passenger tax on these vehicles treating them as contract carriages, instead of as stage carriages. The incorrect assessment of passenger tax resulted in loss of revenue amounting to Rs.10,312.

The matter was reported to the department in September 1987 and to Government in February 1988; their replies have not been received (April 1989).

4.12. Short levy of passenger tax on stage carriages under lump sum agreement

Under the Uttar Pradesh Motor Gadi (Yatri-kar) Adhiniyam, 1962 and the rules framed thereunder, passenger tax payable under a lump sum agreement in respect of any stage carriage on a particular route is calculated, inter alia, on the basis of the total fare payable for the entire route, number of one-way trips allowed or expected

to be made by the stage carriage and the load factor. Any change in the route, number of trips, seating or standing capacity or fare renders the lump sum agreement void with effect from the date of such change and thereafter a fresh agreement in respect of the unexpired period of the agreement is required to be executed.

(i) In Varanasi region, 16 permits were granted for the full route Varanasi to Bara from 8th May 1985. The passenger tax on 12 stage carriages was assessed on the fare for the full route, but in respect of the remaining 4 stage carriages the tax was assessed on the fare for the part route (Varanasi-Ghazipur) only. From September 1986 onwards, the mistake was rectified and the tax was assessed on all the 16 stage carriages on the fare for the full route. The computation of tax on the fare for the part route, in respect of 4 vehicles, during the period from May 1985 to August 1986 resulted in loss of revenue amounting to Rs.73,906.

The matter was reported to the department in July 1987 and to Government in December 1987; their replies have not been received (April 1989).

(ii) In Kanpur region, on the Chhibramau-Indergarh via Talgram route, the Regional Transport Authority authorised

operation of 12 stage carriages. The route, as approved by the Regional Transport Authority, was 36 kilometres long, but the Passenger Tax Officer/Regional Transport Officer realised passenger tax on the fare (Rs.3.05) for 32 kilometres (as indicated by the operators) instead of on the fare (Rs.3.45) for 36 kilometres. The computation of tax on the fare for part of a route resulted in loss of Rs.42,801 during the period from May 1985 to August 1987.

The matter was reported to the department in September 1987 and to Government in January 1988; their replies have not been received (April 1989).

(iii) In Rae Bareli sub-region, eight temporary permits were issued to operators, with validity period from 11th March 1987 to 10th July 1987, to ply vehicles on a newly constructed road, viz., Rae Bareli-Parsadpur Nanauti. The vehicles were authorised to perform 24 single trips per day. However, passenger tax amounting to Rs.93,555 was not realised for the period from March 1987 to July 1987 in respect of the said vehicles.

On this being pointed out in audit (July 1987), the department issued (July 1987) notices to concerned parties for recovery of the tax due.

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

(iv) In Etawah sub-region, the passenger tax under lump sum agreement in respect of 10 stage carriages plying on the Bidhuna-Sandos route was assessed from 23rd July 1985 at Rs.65.40 per seat per quarter on the basis of seven return trips between Bidhuna-Lakhna and 2 return trips between Lakhna-Sandos per day as per time schedule for 11 vehicles for which permits were issued. As the actual number of stage carriages plying on the route was only 10, the passenger tax was recalculated by the department as Rs.71.62 per seat per quarter from the same date. However, the lump sum agreements were not revised and the passenger tax was continued to be realised at the pre-revised rates. This resulted in short realisation of Rs.35,920 during the period from July 1985 to July 1987.

On this being pointed out in audit (September 1987), the department stated (November 1988) that on re-examination the actual difference in tax short realised worked out to Rs.40,299, which had been recovered.

The matter was reported to Government in February 1988; their reply has not been received (April 1989).

(v) In Kathgodam region, although the fare of Kichha-Shaktifarm (27 kilometres) route was intimated by the bus owners' Union as Rs.2.15 (effective from 6th October 1981), for the purpose of assessment of passenger tax on lump sum basis in respect of 9 stage carriages plying on the route, the fare was continued to be taken as Rs.2.06 from 6th October 1981 to 30th September 1984. From 1st October 1984, passenger tax payable on lump sum basis for the above route was determined by the department as Rs.30.50 per seat per month on the basis of the revised fare of Rs.2.15, but in respect of two stage carriages plying on this route, passenger tax was realised at the rate of Rs.24.25 per seat per month for the period from 1st October 1984 to 30th September 1986. These mistakes resulted in short levy of passenger tax amounting to Rs.25,623.

On this being pointed out in audit (October 1986), the department stated (November 1987) that the entire amount had since been realised.

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

(vi) In Banda sub-region, while computing the passenger tax on lump sum

basis in respect of seven stage carriages of private operators plying on the Banda-Ajaigarh route, the fare of Rs.5.60 was taken into account since 20th September 1983 against the fare of Rs.6.10 which was being charged by the vehicles of the U.P. State Road Transport Corporation plying on the same route in rotation. The computation of passenger tax on incorrect fare resulted in loss of revenue amounting to Rs.15,808 during the period from September 1983 to July 1985.

On this being pointed out in audit (July 1986), the department raised demands for Rs.15,224 and recovered a sum of Rs.13,101 from the operators (July 1987). Report on recovery of the balance amount of Rs.2,123 has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

(vii) In Rae Bareilly sub-region, in respect of one vehicle (with 59 taxable seats), plying on the Salwan-Kharauti route, the amount of lump sum passenger tax was erroneously calculated and realised at the rates of Rs.547, Rs.685 and Rs.708 per month for various periods between April 1983 and November 1986, instead of at the correct rate of Rs.913.35

per month. Similarly, in respect of another vehicle (having 59 taxable seats) plying on the Rae Bareilly-Unchahar route, lump sum passenger tax was realised at the rates of Rs.824 per month (during February 1985 to January 1986) and Rs.852 per month (during February 1986 to December 1986), instead of at Rs.1,132.80 per month. Incorrect levy of passenger tax in the above two cases resulted in short realisations by Rs.14,616.

On this being pointed out in audit (July 1987), the department realised Rs.1,428 by issuing demand notices to the vehicle owners. Report on recovery of the balance amount of Rs.13,188 has not been received (April 1989).

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

(viii) In Varanasi region, the lump sum agreement for all the eleven stage carriages plying on the Jamipur-Bijethuon and Jaunpur-Samadpur routes was revised from Rs.15.22 to Rs.18.89 per seat per month from 1st March 1986, but the passenger tax for 4 stage carriages was realised at the pre-revised rate and in respect of one stage carriage the revised rate was charged from 27th December 1986, instead

of from 1st March 1986. Thus, passenger tax was assessed and collected short to the extent of Rs.18,296 during March 1986 to May 1987.

On this being pointed out in audit (May 1987), the Regional Transport Officer accepted the mistake and agreed (June 1987) to issue demand notices for recovery. Further report has not been received (April 1989).

The matter was reported to Government in December 1987; their reply has not been received (April 1989).

(ix) In Varanasi region, while computing the passenger tax under lump sum agreement for 22 stage carriages plying on the Varanasi-Kerakat via Sindhorawa route, the passenger tax was computed at Rs.48.96 per seat per quarter, instead of at the correct rate of Rs.50.18 per seat per quarter. The mistake resulted in passenger tax amounting to Rs.38,750 being realised short during the period from 21st May 1982 to 20th May 1987.

The matter was reported to the department in July 1987 and to Government in December 1987; their replies have not been received (April 1989).

(x) In Aligarh sub-region, the load factor of the Aligarh-Ramghat route was increased from 89 per cent to 93 per cent from 1st April 1987 and the fare was enhanced by 20 per cent from 1st July 1987. Passenger tax payable under lump sum agreements in respect of 30 stage carriages plying on this route was, however, continued to be calculated at the rate of Rs.23.15 per seat per month against Rs.24.19 per seat per month recoverable from 1st April 1987 and Rs.30.17 per seat per month from 1st July 1987. The incorrect assessment resulted in short levy of passenger tax amounting to Rs.23,623 during the period from April 1987 to July 1987.

On this being pointed out in audit (October 1987), the sub-Regional Transport Officer, Aligarh issued demand notices to recover the amount. Report on recovery has not been received (April 1989).

The case was reported to Government in February 1988; their reply has not been received (April 1989).

(xi) In the two sub-regions, of Lakhimpur Kheri and Mirzapur, lump sum agreements for payment of passenger tax in respect of 51 stage carriages plying on 3

routes (Lakhimpur-Mangalganj, Pallia-Aria and Lakhimpur-Mohammadi) of Lakhimpur Kheri sub-region and on one route (Baradia-Khaliyari) of Mirzapur sub-region were executed on the basis of the total number of vehicles permitted to ply on the aforesaid routes, although five of them had gone off road during the period from July 1983 to August 1987. Since the stage carriages, on a particular route, ply in rotation according to a fixed time table, one-way trips performed or expected to have been performed had to be calculated on the actual number of vehicles plying on the routes and not on the total number thereof authorised to ply. Due to five stage carriages being off the road, the receipts of the operators in respect of the remaining stage carriages increased but the lump sum agreements were not revised and passenger tax was calculated on lesser number of trips than actually made by the remaining stage carriages. This resulted in short levy of passenger tax amounting to Rs.79,013.

The cases were reported to the department in July 1987 (Mirzapur unit) and September 1987 (Lakhimpur Kheri unit). In November 1988, the Assistant Regional Transport Officer, Kheri intimated that Rs.36,221 (out of Rs.58,654) had been recovered and action was being taken to

recover the balance amount. Reply in the case of Mirzapur sub-region has not been received (April 1989).

The matter was reported to Government in December 1987; their reply has not been received (April 1989).

(xii) In Rae Bareli sub-region, in respect of 12 stage carriages on 3 routes (Rae Bareli-Mohanganj via Amawan, Rae Bareli-Unchahar-Salwan and Salwan-Kharauli), the number of trips was increased by the operators due to a few vehicles going off road, but the lump sum agreement was not revised although it had the effect of increasing the receipts of the operators. The calculation of passenger tax on lesser number of trips than actually made by the operators resulted in short levy of passenger tax to the extent of Rs.22,062.

On this being pointed out in audit (July 1987), the department accepted the mistake and recovered a sum of Rs.14,094 from the concerned operators. Report on recovery of the balance amount has not been received (April 1989).

The matter was reported to Government in December 1987; their reply has not been received (April 1989).

4.13 Non-levy of goods tax on the vehicles of other State plying in Uttar Pradesh

With a view to encouraging movement of transport vehicles between the State of U.P. and Union Territory of Delhi and to regulate and control their operation, the two entered into a reciprocal agreement on 26th November 1985. As per terms and conditions of the agreement, transport vehicles of the State/Union Territory are required to pay road tax in their respective home State/Union Territory at the rate applicable there. However, there is no such provision either in the agreement or in the Act and Rules of the U.P. State for single point taxation in respect of goods tax or passenger tax. As such, all transport vehicles of the Union Territory of Delhi, plying in Uttar Pradesh under the reciprocal agreement, have the liability to pay goods tax or passenger tax to the State of Uttar Pradesh for the duration of their stay in U.P.

In Bareilly region, four public carriers (goods vehicles) of the Union Territory of Delhi having permanent permits, duly countersigned by the Regional Transport Officer, Bareilly, were plying in Uttar Pradesh. Goods tax in respect of the said vehicles for various

periods between December 1984 and March 1987 was, however, not levied by the transport authorities of Bareilly region. Goods tax not levied amounted to Rs.28,554.

On this being pointed out in audit (April-May 1987), the department stated that recovery would be made after scrutiny of the permits of the respective vehicles. Further report has not been received (April 1989).

The matter was reported to Government in February 1988; their reply has not been received (April 1989).

4.14. Non-assessment/short assessment of road tax

Under the U.P. Motor Vehicles Taxation Act, 1935, no motor vehicle shall be used in any public place in the State unless the owner thereof has paid, in respect of it, road tax at the appropriate rate specified in the First Schedule to the Act. Road tax, payable by a stage carriage, depends upon the class of route on which it is authorised to ply and its authorised seating capacity. Road tax in respect of any vehicle found plying without permit is to be charged as for the special class of route.

In respect of one stage carriage in Bareilly region and 4 stage carriages in Rae Bareli sub-region, as per records of the department, road tax was neither paid by the owners nor assessed and realised by the department for various periods between October 1985 and June 1987. Road tax leviable amounted to Rs.32,833.

Further, road tax in respect of 5 stage carriages in Bareilly region and 8 stage carriages in Rae Bareli sub-region was assessed either for lower class of route or for lesser number of seats than authorised seating capacity, resulting in short assessment to the extent of Rs.18,267 during January 1985 to June 1987.

The matter was reported to the department in June 1987 and September 1987 and to Government in February 1988; their replies have not been received (April 1989).

4.15. **Underassessment of road tax due to application of incorrect rates**

Under the U.P.Motor Vehicles Taxation Act, 1935, the assessment of road tax on a motor vehicle plying for hire for conveying passenger depends, inter alia, on the class of route on which it plies.

For the purpose of levy of road tax, routes are classified into four categories, viz., special, 'A', 'B' and 'C' and the rate of tax is highest for special class route and is comparatively lower for 'A', 'B' and 'C' class routes. If a vehicle plies on more than one class of routes, the road tax applicable to the highest class is required to be charged for the entire route.

In Gorakhpur region, three vehicles of an operator were operating on contract basis with the Fertilizer Corporation of India (Gorakhpur unit) for carrying staff members and their children between the places of their residence in Gorakhpur to the factory/school and vice versa. The route from Gorakhpur city to the factory forms a part of the Gorakhpur-Sonauli route which was upgraded to 'special' class route from January 1982. Thus, the vehicles plying between Gorakhpur city and the factory were liable to pay road tax at the rate applicable to 'special' class and not at the rate applicable to 'B' class route, which was being charged from them. The payment of road tax at the rate applicable to lower class of route resulted in loss of revenue amounting to Rs.43,437 during the period from January 1982 to September 1987.

The matter was reported to the department in September 1987 and to Government in February 1988; their replies have not been received (April 1989).

4.16. Irregular exemption from payment of road tax

Under the Uttar Pradesh Motor Vehicles Taxation Act, 1935, the road tax in respect of a transport vehicle may be paid in four equal instalments, payable in advance on or before fifteenth day of January, April, July and October each year. The Act/rules do not provide for exemption of tax for the period the vehicle is not used. However, under Rule 33 of U.P. Motor Vehicles Taxation Rules 1935, when the owner of a motor vehicle has occasion to withdraw his vehicle from use for a period exceeding three months, the registration certificate and the token issued in respect of the vehicle are required to be surrendered to the taxation officer; otherwise it is presumed that the vehicle was being used. In practice the department is granting exemption when period of surrender exceeds 3 months, considering the tax not due.

In Kanpur region and Rae Bareilly sub-region, the registration certificates and tokens issued in respect of 40

transport vehicles were surrendered by the vehicle owners for varying periods of less than three months between April 1985 and June 1987. It was noticed that the department exempted the said vehicles from payment of tax for the periods of non-use although no such exemption is provided for in the Act/Rules. The irregular exemption on the basis of non-use of the vehicles resulted in loss of revenue amounting to Rs.23,270.

On this being pointed out in audit (July 1987 and August 1987), the department accepted the objection (July 1987 and August 1987) and agreed to realise the tax exempted. Report on recovery has not been received (April 1989).

The matter was reported to Government in February 1988; their reply has not been received (April 1989).

4.17. Loss of revenue due to delay in reclassification of routes

The U.P.Motor Vehicles Taxation Rules, 1935 provide that while classifying a route the controlling authority shall be guided by three considerations, viz., (i) potential income which will accrue from employment of a public service vehicle on that route, (ii) maintenance cost of the

road or roads or the portion or portions of any road or roads comprised within the said route and (iii) necessity for development of the proposed route in public interest. Hon'ble Supreme Court, in the case of Sheelawati vs. State Transport Authority U.P. (1981 S.C.C. 665), decided that considerations enumerated in the Rules must be followed. Where the Regional Transport Authority had done classification without specifically taking into account the factors enumerated, reclassification done by the Authority was held to be bad in law.

In Kumaon region, two routes (Kichha-Sitarganj-Nanaksagar-Khatima and Kichha-Strsa-Shaktifarm) were reclassified and upgraded from 'A' class to 'special class' routes in September 1978 by the State Transport Authority on the recommendation of the Regional Transport Authority, Kumaon region. Demand notices were issued (October 1978) to 44 operators plying their vehicles on these routes for realisation of road tax of 'Special class' routes. The operators filed writ petitions (notice no.348 of 1979) in the Allahabad High Court, challenging the reclassification of the aforementioned two routes. The High Court quashed the reclassification order as well as the notices of demand on 21st July 1983 and directed the Regional Transport Authority to reconsider the

reclassification of the routes in accordance with the law and in the light of the Supreme Court judgment delivered in the case of sheelawati vs. State Transport Authority U.P. The department, however, did not take any action to re-examine the issue in the light of the aforesaid observations of the High Court.

The matter was reported to the department in December 1987 and to Government in February 1988; their replies have not been received (April 1989).

CHAPTER 5

STAMPS DUTIES AND REGISTRATION FEES

5.1. Results of Audit

Test check of the accounts and relevant records of District Registrars and Sub-Registrars, conducted in audit during the year 1987-88, revealed short levy of stamp duty and registration fee amounting to Rs.20.09 lakhs in 121 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Short levy of stamp duty and registration fee due to under- valuation of properties	76	13.43
2. Short levy due to misclassification of documents	24	3.48
3. Other cases	<u>21</u>	<u>3.18</u>
Total	<u>121</u>	<u>20.09</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

5.2. Short levy of stamp duty and registration fees due to undervaluation of properties

(a) Under the Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh) stamp duty on a deed of conveyance is leviable on the market value of the property forming the subject matter of the deed or on the consideration set forth therein, whichever is higher. Under Government orders of July 1974, the market rates of several categories of land situated in a district are to be fixed and notified biennially by the Collector concerned for the guidance of registering authorities.

(i) In the three districts of Varanasi, Fatehpur and Deoria, properties consisting of land and building in 17 instruments were valued at rates lower than the market rates prevailing in the locality as notified by the Collectors concerned. This resulted in short charge of stamp duty and registration fee amounting to Rs.74,081.

On this being pointed out in audit between March 1984 and May 1985, the department stated (June 1986 and December 1988) that stamp duty and registration fee amounting to Rs.44,697 together with penalty of Rs.4,395 had since been imposed in 11 cases, out of which

Rs.5,950 had been recovered. Report on action taken in the remaining cases has not been received (April 1989).

The case was reported to Government in March 1988; their reply has not been received (April 1989).

(ii) At Dadri (district Ghaziabad), on two documents relating to sale of land for industrial purposes, executed and registered between 5th January 1987 and 15th January 1987, stamp duty and registration fees were charged, based on the valuation of the properties determined at the rates of land for agricultural purposes. These rates were lower than the rate (Rs.70 per square yard) fixed and notified by the Collector, Ghaziabad in the case of land marked for industrial/residential purposes. The adoption of incorrect rates for valuation of the property resulted in stamp duty being levied short by Rs.1.89 lakhs.

The matter was reported to the department in August 1987; their reply has not been received (April 1989).

The case was reported to Government in January 1988; their reply also has not been received (April 1989).

(iii) At Dadri (district Ghaziabad) again, two instruments were drawn relating

to sale of land measuring 23 bighas and 14 biswas by dividing the land in two equal parts. Different valuation was adopted in these two instruments, viz., Rs.8.74 lakhs and Rs.10.69 lakhs, which were executed and registered between 9th January and 23rd January 1986 in favour of Maharshi Ved Vidyapith, Maharshinagar, Ghaziabad. The adoption of different market value for the same type of land and sold at the same time resulted in stamp duty being levied short by Rs.22,540.

The matter was reported to the department in August 1987; their reply has not been received (April 1989).

The case was reported to Government in January 1988; their reply also has not been received (April 1989).

(iv) At Nakur (district Saharanpur), on an instrument relating to sale of land for industrial purposes executed and registered on 6th May 1986, stamp duty was charged on the valuation of the property determined at the rates notified for agricultural land. These rates were lower than the rate (Rs.225 per square metre) fixed and notified by the Collector, Saharanpur in the case of land marked for residential/industrial purposes. The adoption of incorrect rates for valuation of the property resulted in stamp duty being levied short by Rs.61,845.

The matter was reported to the department in October 1987; their reply has not been received (April 1989).

The case was reported to Government in April 1988; their reply also has not been received (April 1989).

(b) As per the U.P. Stamp Rules, 1942, the minimum market value for the purpose of payment of stamp duty in respect of a building, forming the subject of an instrument of conveyance, exchange, gift, settlement, award or trust, shall be deemed to be not less than that determined at 25 times the actual or assessed annual rental value, whichever is higher.

In the office of the Sub-Registrar, Mussoorie (district Dehradun), in respect of a deed of conveyance (comprising building and open land), registered in June 1986 vide document number 69/86, stamp duty was levied based on the sale consideration of Rs.13.50 lakhs as shown in the sale deed. The valuation adopted was incorrect as the value of the plot alone (excluding the building erected on it) measuring 6365.52 square metres, at the rate of Rs.300 per square metre fixed by the Collector, Dehradun, worked out to Rs.19.10 lakhs. Actual annual rent or assumed rent or assessed annual rent by Nagarpalika was not set forth in the instrument though required under Section

27 of the Act. Action was also not taken by the Sub-Registrar to determine the proper valuation of the property as required under rules 343 to 346. The valuation of the building, ascertained on the basis of schedule of rates of building works sanctioned (February 1984) by the Chief Engineer, Hill area, Dehradun, worked out to Rs.3.91 lakhs and the value of the open land worked out to Rs.18.12 lakhs. The undervaluation of the property by Rs.8.53 lakhs (Rs.22.03 lakhs minus Rs.13.50 lakhs) resulted in stamp duty being levied short by Rs.98,095.

On the mistake being pointed out in audit (June 1987), the department stated (June 1987) that the matter would be referred to the Collector, Stamps for proper valuation and realisation of stamp duty. Further development has not been intimated (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

5.3. Short levy of stamp duty due to incorrect valuation of non-agricultural land

As per the U.P. Stamp Rules, 1942, as amended, minimum market value of a non-agricultural land, which is not

assessed to revenue and from which no profits have arisen during the period of three years immediately preceding the date of execution of instrument, shall be not less than 400 times the assumed annual rent of the land.

(a) In the office of the Sub-Registrar, Mohammdabad, Gohna (district Azamgarh), four deeds of conveyance relating to non-agricultural lands were registered during May 1984 on which stamp duty was levied, taking market value of the parcels of land in question, at rates much less than 400 times of the assumed annual rental value of the land as set forth therein. The omission to value the parcels of non-agricultural land at the correct rate resulted in short realisation of stamp duty by Rs.21,835.

(b) Similarly, in the office of the Sub-Registrar at Mankapur (district Gonda), in respect of one deed of conveyance, registered in January 1985, stamp duty and registration fees were realised short by Rs.17,043 and Rs.45 respectively.

On this being pointed out in audit (between February 1985 and January 1986), the department stated (August 1986) that copies of the documents had been sent

to the Collector, Stamps for assessment and recovery of stamp duty. Further report has not been received (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

5.4. Incorrect charging of stamp duty on contract

In terms of Government notification issued on the 14th January 1982 under the Indian Stamp Act, 1899, with effect from 20th January 1982, stamp duty became leviable on instruments in the nature of a memorandum, agreement or security bond furnished to, or made or entered into by a contractor for the execution of work entrusted to him by, or for the due performance of any contract, with certain departments. Industries Department was one of such departments. The Deputy Commissioner, Stamps, Meerut in his letter dated 8th March 1983 clarified that contracts providing for deposit of security with Government for due performance thereof are chargeable under article 40(a) or 40(b) of Schedule 1-B of the Act according as security deposit is in cash or in the form of fixed deposit receipts. Accordingly, stamp duty is

leviable at the rate of Rs.85 or Rs.42.50 (raised to Rs.95 or Rs.47.50 from 17th October 1985) per thousand rupees, as the case may be.

In the course of test check, it was noticed (October 1987) that a contract was awarded by the Director of Industries, U.P., Kanpur to a contractor for Rs.88.64 lakhs in June 1985 for demolition of temporary structures and construction of a new pavilion at the Pragati Maidan, New Delhi for participating in exhibitions to be held there. Security deposit of Rs.8.86 lakhs was deducted from the running and final bills of the contractor. Instead of charging stamp duty on the contract as per provisions mentioned above, contract for execution of work was executed on a stamp paper of Rs.5 only. The omission to levy stamp duty on security deposit amount resulted in stamp duty amounting to Rs.75,348 (calculated on the security deposit of Rs.8.86 lakhs) being charged short.

The matter was reported to the department and Government in December 1987; their replies have not been received (April 1989).

5.5. Short levy of stamp duty due to non-aggregation of stamp duty for two distinct matters in an instrument

Under the Indian Stamp Act, 1899, as amended in its application to Uttar Pradesh, any instrument comprising or relating to several distinct matters shall be chargeable with the aggregate amount of duties with which separate instruments, each comprising or relating to one of such matters would be chargeable under the Act.

In respect of a deed registered at Bhadohi (district Varanasi) in May 1981, a sum of Rs.38 only was levied as stamp duty, treating the deed as 'surrender of lease', whereas rights on the land and the building (costing Rs.2.04 lakhs) constructed thereon by the first party were transferred to the second party. Thus, the deed was not only for surrender of lease but was also for transfer of the building (costing Rs.2.04 lakhs) constructed thereon. Stamp duty should have been charged on the instrument as 'surrender of lease' as well as 'sale deed'. The omission to charge stamp duty in respect of sale of the building resulted in short realisation of stamp duty amounting to Rs.21,420.

On this being pointed out in audit (April 1982), the department stated (August 1985) that stamp duty amounting to Rs.21,382 and penalty of Rs.21,382 had since been levied. Report on recovery has not been received (April 1989).

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The matter was reported to Government in May 1988; their reply has not been received (April 1989).

CHAPTER 6

LAND REVENUE

6.1. Results of Audit

Test check of the accounts and relevant records of the offices of the Revenue Department, conducted in audit during 1987-88, revealed non-levy/short levy of land revenue, short realisation of collection charges, non-recovery of cost of Jot bahis, etc., amounting to Rs.6.98 lakhs in 80 cases, which broadly fall under the following categories:

	Number of (In lakhs of cases	Amount rupees)
1. Non-levy or short levy of land revenue	25	4.06
2. Short recovery of collection charges	20	1.13
3. Non-recovery of cost of <u>Jot bahis</u>	11	1.48
4. Other cases	<u>24</u>	<u>0.31</u>
Total	<u>80</u>	<u>6.98</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

6.2. Incorrect remission of land revenue

Under the Uttar Pradesh Zamindari Abolition and Land Reforms Rules, 1952, land revenue is payable in two instalments in the proportion prescribed in Appendix-I to the Rules. In the event of an agricultural calamity affecting crops of a harvest in any region, relief in revenue is to be computed in accordance with proportion in which instalments of land revenue are payable. Relief in land revenue for kharif crops affected by agricultural calamity in Tahsil, Robertsganj was to be allowed at 40 per cent of land revenue.

In Tahsil, Robertsganj (district Mirzapur), relief in revenue for kharif crops (which were affected by an agricultural calamity) of 1386 fasli (July 1978 to December 1978) was, however, computed at 50 per cent of the annual land revenue, instead of at 40 per cent. Relief of land revenue sanctioned in excess amounted to Rs.55,309.

On the mistake being pointed out in audit (February 1984), the Tahsildar, Robertsganj (district Mirzapur), stated (November 1988) that relief at 40 per cent had been re-sanctioned by Government (July 1985).

The matter was reported to Government in February 1984; their reply has not been received (April 1989).

6.3. Incorrect remission of land development tax

The Uttar Pradesh Land Development Tax Act, 1972 was repealed with effect from 1385 fasli (1st July 1977) as a consequence of which neither any fresh demand for land development tax was to be raised nor any remission was to be allowed from 1st July 1977.

In district Deoria, relief in land development tax, raised during the period prior to 1385 fasli (July 1977 to June 1978), was allowed erroneously on account of the agricultural calamity of 1385 fasli by the Revenue Department in its letter No.42(KH)-85F (35)/78-313/78 dated 19th March 1986. Relief sanctioned erroneously amounted to Rs.23,541.

On the mistake being pointed out in audit (August 1986), the Collector, Land Revenue Collections, Deoria stated (August 1986) that necessary action would be taken after enquiry from the Tahsildar, Padrauna. In July 1987, the Collector, Deoria was directed by Government to recover the amount of land development tax

irregularly remitted. Report on recovery has not been received (April 1989).

6.4. Non-recovery of collection charges

In terms of the Revenue Recovery Act, 1890, as applicable to Uttar Pradesh, revenue authorities are required to recover dues on behalf of other Government, semi-Government organisations and local bodies, as arrears of land revenue, on receipt of recovery certificates from the concerned authorities. Collection charges at the rate of 10 per cent of the dues collected are to be realised by the revenue authorities as service charges. The Board of Revenue, in their circular dated 30th June 1975, directed that the recovery certificate should clearly indicate whether collection charges were to be borne by the defaulter or by the department issuing those certificates. In cases where this was not indicated in the recovery certificates, the Board directed that only the net amount collected, after deducting the collection charges, be passed on to the department or body concerned.

In two Tahsils, Bansdeeh (Ballia) and Shikohabad (Mainpuri), collection charges in respect of the recoveries effected by the revenue authorities as

arrears of land revenue on behalf of semi-Government organisations and local bodies etc., during the years 1985-86 and 1986-87 were neither deducted from the collections made nor were these charges recovered from the defaulters concerned. The omission resulted in revenue amounting to Rs.35,141 not being realised.

On the omission being pointed out in audit (May 1987 and August 1987), the Tahsildar, Shikohabad (district Mainpuri) stated (August 1987) that recovery of Rs.2,090 had since been made. Report on recovery of the balance amount of Rs.16,678 pertaining to Shikohabad and reply in respect of Tahsil, Bansdeeh (district Ballia) have not been received (April 1989).

The cases were reported to Government in May 1987 and August 1987 respectively; their reply has not been received (April 1989).

6.5. Non-deposit of service charges

Under Section 122-B of the U.P. Zamindari Abolition and Land Reforms Act, 1950, where any property vested in a gaon sabha is damaged or misappropriated, the amount of compensation for damages, misappropriation or wrongful occupation of

such land shall be recovered as arrears of land revenue. The amount so recovered was to be credited to the Consolidated Gaon Fund vide Section 124 ibid. In their circular letter dated 17th June 1975, the Board of Revenue directed that Amins should be entrusted with the job of recovery of compensation money, out of which 10 per cent was to be deposited into the treasury as service charges and the balance into the Consolidated Gaon Fund.

In Padrauna tahsil (district Deoria), compensation charges amounting to Rs.3.66 lakhs were recovered by the Amins during the years 1983-84 to 1985-86, out of which an amount of Rs.36,590 (at 10 per cent of the compensation amount) was required to be deducted and remitted into treasury towards service charges, but it was not done till the date of audit (October 1986).

On the omission being pointed out in audit (October 1986), the Tahsildar, Padrauna stated (July 1988) that the Treasury Officer, Deoria had since been requested for adjustment of the amount of service charges from the Consolidated Gaon Fund to Government account.

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The matter was reported to Government in August 1988; their reply has not been received (April 1989).

CHAPTER 7

OTHER TAX RECEIPTS

A-ELECTRICITY DUTY

7.1. Results of Audit

Test check of the accounts of Assistant Electrical Inspectors/Appointed Authorities, conducted in audit during the year 1987-88, revealed non-levy or short levy of electricity duty and inspection fees amounting to Rs.19.37 lakhs in 15 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-payment of electricity duty/ inspection fees	12	4.52
2. Short levy of electricity duty	3	14.85
Total	<u>15</u>	<u>19.37</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

7.2. Accumulation of electricity duty dues

Under the U.P. Electricity (Duty) Act, 1952 and the rules framed thereunder, electricity duty is levied and paid to the State Government on energy sold to a consumer by a licensee, the Board, the State Government or the Central Government. The payment of electricity duty, where the energy is supplied or consumed by a licensee, is to be made by the licensee within two calendar months following the close of the month in which meter readings are recorded. Where the amount of electricity duty is not paid to the State Government within the prescribed period, the licensee shall be liable to pay interest at the rate of 18 per cent per annum on the amount of electricity duty remaining unpaid until payment thereof is made.

It was noticed (September 1986) that the Fertiliser Corporation of India (Gorakhpur unit), a licence holder of the State Government, did not make payment of electricity duty amounting to Rs. 1.07 crores on the energy consumed by it as well as supplied to its consumers, for the period from December 1985 to June 1986 due to financial constraints. On subsequent scrutiny (August 1987), it was found that the arrears of unpaid amount of electricity

duty at the end of March 1987 amounted to Rs.2.03 crores, except for the months of November 1986 to January 1987 payments for which were made on due dates. Of the above amount of arrears, payments of amounts due for the months of February 1986 and June 1986 were made as late as in May 1987 and July 1987, respectively.

For non-payment of electricity duty by the due date, the licence holder was liable to pay interest at 18 per cent per annum, which, as calculated upto 31st July 1987, worked out to Rs.34.44 lakhs.

On this being pointed out in audit (October 1986 and August 1987), the department confirmed (November 1987) the facts. Steps, if any, taken by the department for realisation of electricity duty and interest were not intimated (April 1989).

The case was reported to Government in January 1988; their reply has not been received (April 1989).

7.3. Short levy of electricity duty

As per Government notification dated 23rd December 1986, electricity duty is payable at the rate of 6 paise per unit on the energy sold to a consumer for

industrial or motive power purposes at medium, high or extra high voltage where contracted load at consumer's premises exceeds 75 kilowatt (100 B.H.P.) and 3 paise per unit where energy is consumed by State Government or sold to State Government for consumption by that Government.

A licence holder at Mirzapur (a unit of the U.P.State Cement Corporation Limited) consumed 4,62,55,235 units of energy during January 1987 to July 1987 for industrial purposes and deposited electricity duty at the rate of 3 paise per unit as against the correct rate of 6 paise per unit. Application of the incorrect rate of duty resulted in short realisation of duty to the tune of Rs.13.88 lakhs.

On this being pointed in audit (September 1987), the Factory Manager stated (November 1987) that from September 1987 electricity duty for industrial consumption would be deposited at the correct rate of 6 paise per unit. Nothing was stated about the payment of differential duty and the interest due thereon (at the rate of Rs.2.50 lakhs per annum).

The matter was reported to the department in October 1987 and to Government in February 1988; their replies have not been received (April 1989).

B-TAX ON PURCHASE OF SUGARCANE**7.4. Results of Audit**

Test check of the accounts and relevant records of sugar factories and khandsari units, conducted in audit during the year 1987-88, revealed non-levy/short levy of tax on purchase of sugarcane amounting to Rs.4.01 lakhs in 23 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Clearance of sugar without payment of purchase tax	19	3.23
2. Non-imposition of interest and penalty	1	0.25
3. Short assessment due to non-observance of rules	2	0.48
4. Other irregularities	1	0.05
Total	<u>23</u>	<u>4.01</u>

An important case is given in the succeeding paragraph.

7.5. Removal of sugar without payment of purchase tax

Under the U.P. Sugarcane (Purchase Tax), Act, 1961 and the rules framed thereunder, no owner of a sugar factory shall remove or cause to be removed any sugar produced in the factory either for home consumption or for sale or for manufacture of any other commodity in or outside the factory, until he has paid the tax leviable on the purchase of sugarcane so consumed in the manufacture of sugar. Any contravention of these provisions renders the owner liable to pay, by way of penalty, in addition to the tax payable, a further sum not exceeding one hundred per cent of the sum so payable.

In Farrukhabad district, a sugar factory purchased 8.02 lakh quintals of sugarcane during the 1985-86 season. Purchase tax amounting to Rs.10,02,838 (at the rate of Rs.1.25 per quintal of sugarcane) was to be paid on the total quantity of sugar produced during the said season. It was noticed that entire sugar produced during the 1985-86 season was removed up to March 1987, against which purchase tax amounting to Rs.9,52,925 was paid. Thus, purchase tax to the extent of Rs.49,913 was realised short.

On the irregularity being pointed out in audit (May 1987), the department stated (April 1989) that the entire amount of tax short realised had been recovered along with penalty and deposited into treasury on 30th January 1989.

The case was reported to Government in May 1987; their reply has not been received (April 1989).

C-ENTERTAINMENT AND BETTING TAX**7.6. Loss of revenue due to short realisation of entertainment tax**

Under the Uttar Pradesh Cinema (Regulation) Act, 1955 read with the Government's clarification contained in letter dated 6th September 1983, video shows have been classified as "Interior Cinema". Accordingly, a lump sum tax, as provided in Section 4(1) of the U.P. Entertainment and Betting Tax Act, 1979 read with notification dated 24th July 1981, is chargeable, in advance, from public video owners, as under:

- (i) In a local area Rs.1,000 per week having a population up to 10,000
- (ii) In a local area Rs.2,000 per week having a population over 10,000

Where the number of shows in a week actually falls short of 14, rebate in tax is granted by the District Magistrate at the rate of one fourteenth of the amount of weekly tax for every exhibition by which the total exhibition during the week falls short of fourteen.

At Gopeshwar (district Chamoli), 19 public video owners were issued licences between December 1983 and July 1987 for different spells for showing video shows to the public.

It was noticed that entertainment tax amounting to Rs.1.87 lakhs was realised from them, as against Rs.9.62 lakhs leviable for 962 weeks for which licences were issued to them during the said period. This resulted in short realisation of revenue amounting to Rs.7.75 lakhs. The department failed to check the short deposits and recover the same from security deposits of the owners as required under the rules.

On this being pointed out in audit (June 1987), the department stated (September 1988) that rebate in tax amounting to Rs.40.929 had been granted by the District Magistrate for operating less than 14 shows in a week and that notices had been issued for recovery of the balance amount (Rs.7.34 lakhs).

The matter was reported to Government in January 1988; their reply has not been received (April 1989).

CHAPTER 8

FOREST RECEIPTS

8.1. Results of Audit

Test check of the divisional records, conducted by Audit during the year 1987-88 revealed, irregularities involving revenue of Rs.553.00 lakhs in 137 cases, which generally fall under the following categories:

Sl. No.	Number of cases	Amount (In lakhs of rupees)
1. Irregularities in collection and disposal of tendu leaves	4	181.87
2. Non-levy/short-levy of penalties	6	93.25
3. Irregularities in extraction of resin	18	77.84
4. Incorrect fixation of royalty	7	33.39
5. Other irregularities	102	166.65
Total	<u>137</u>	<u>553.00</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

8.2. Loss due to incorrect fixation of royalty

In terms of Government orders of September 1977, the rate of royalty for eucalyptus wood allotted to the Uttar Pradesh Forest Corporation from the Bijnor Plantation Division, Kotdwara in 1981-82 was fixed at Rs.201 per cubic metre, arrived at by dividing the total sale price obtained in 1980-81 by the quantity estimated on diametre class volume tables prescribed in June 1978 by the Additional Chief Conservator of Forests (Management).

For allotments made in 1982-83, 1983-84, 1984-85, and 1985-86, the aforesaid rate was raised as under, taking into account the rising market trend as envisaged in Government orders of September 1983.

Allotment during	Rate of royalty per cubic metre	Date of its fixation
	Rs.	
1982-83	241	11.9.1984
1983-84	313	11.9.1984

1984-85	335	20.1.1986
1985-86	400	28.10.1986

In respect of eucalyptus lots allotted to the Corporation in 1983-84, and onwards, the additional Chief Conservator of Forests (Management) replaced in February 1985 the use of diameter class volume tables by quality class volume tables without revising suitably the rate for 1981-82 which was based on old tables or referring the matter to the Royalty Fixation Committee or Government.

In the course of audit of the Bijnor Plantation Division, Kotdwara in August 1986, it was seen that by using new tables, the estimated quantity of eucalyptus wood allotted to the Corporation worked out to be less than that estimated on old tables. Thus, the use of new tables for estimating the quantity of wood allotted without revising suitably the rate of Rs.201 per cubic metre for 1981-82 (on the basis of which rates for 1982-83 to 1985-86 were fixed) resulted in less realisation of royalty of Rs.333.58 lakhs between 1983-84 and 1985-86 alone as shown below:

Year	Estimated quantity of wood in M ³		Rate per M ³	Royalty realisable for		Royalty realised
	On the basis of old tables	On the basis of new tables		Quantity estimated on old tables	Quantity estimated on new tables	Short
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Rs.	(In lakhs of rupees)		
1983-84	1,38,738	96,134	313	434.25	300.90	133.35
1984-85	1,35,413	1,06,141	335	453.63	355.57	98.06
1985-86	1,56,897	1,31,355	400	627.59	525.42	102.17
Total	4,31,048	3,33,630		1,515.47	1,181.89	333.58

In another division, the Tarai West Forest Division, Ramnagar, quality class volume tables were adopted from 1985-86, involving less realisation of royalty amounting to Rs.40.86 lakhs in 1985-86.

The Chief Conservator of Forests (Planning) stated (January 1989) that the outturn estimated on new tables was nearer the actual outturn and the Corporation being an undertaking of Government, there was no question of profit or loss. Further, it was stated that the rates obtained in 1980-81 on the basis of diameter class volume table could not be revised in 1984 as the trees had already been felled. The reply was not tenable as the Corporation being a commercial undertaking, non-revision of rates actually resulted in loss of revenue to the Government. In the absence of actual measurements for the year 1980-81, the average proportionate changes in subsequent years should have been adopted for revision of the rates.

The matter was reported to Government in December 1986 and January 1987; their reply has not been received (April 1989).

8.3. Short realisation of royalty

(a) As per Government order of September 1977, the royalty payable by the Uttar Pradesh Forest Corporation was to be worked out after calculating the simple average of the weighted royalty figures of each of the preceding three years obtained in open auction in cases where the Corporation was working in the entire division.

In the North Gorakhpur Forest Division, the Corporation started working from the year 1982-83 and exploited lots comprising 16,130.847 cubic metres allotted to it during that year. The royalty payable as per above Government orders worked out to Rs.212.48 lakhs but demand was raised for Rs.153.36 lakhs only due to non-inclusion of the value of fuel chattas and sal ballies in the royalty rate obtained in the three years prior to 1982-83. This resulted in short realisation of royalty of Rs.59.12 lakhs.

On this being pointed out in audit (May 1986), the department stated in April 1989 that the entire amount of short realised royalty had been recovered from the Corporation in January 1989.

The matter was reported to

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Government in May 1986, their reply has not been received (April 1989).

(b) According to Government orders of September 1978, in case a forest lot is allotted to the Uttar Pradesh Forest Corporation and work in the lot is not started in the allotment year, royalty will be charged at rates applicable to the year in which the work is actually done. As per 'Sale Rules' of the Tehri Garhwal Circle applicable to the Forest Corporation also, working period for Chir lots of 1983-84 was upto 30th June 1984.

In the Yamuna Forest Division, Mussoorie, lots no. 49 to 116/83-84 consisting of 12,608.671 cubic metres of Chir wood were allotted to the Corporation on 1st June 1984 for exploitation. Work was not started in any of the lots upto 30th June 1984, but was done during September 1984 to March 1985 for which royalty of Rs.57.12 lakhs at the rate of Rs.453 per cubic metre fixed for 1984-85 was chargeable. The Division, however, charged Rs.42.87 lakhs only at the rate of Rs.340 per cubic metre fixed for 1983-84. This resulted in short realisation of royalty of Rs.14.25 lakhs.

The matter was reported to Government in December 1987; their reply has not been received (April 1989).

(c) The Royalty Fixation Committee recommended in January 1986 that the royalty on bhabhar grass of Shivalik Circle allotted to the Uttar Pradesh Van Nigam for 1983-84 be fixed on the same principle as adopted for 1982-83 (i.e., average of last three years) and for the year 1984-85, by adding 11 per cent on the final royalty of 1983-84, which was accepted by the Chief Conservator of Forests, (Management) on 20th January 1986.

(i) During audit (March 1986) of the Shivalik Forest Division, Dehradun it was noticed that the royalty in respect of 24 lots of bhabhar grass allotted to the Van Nigam during 1983-84 worked out to Rs.21.17 lakhs on the basis of average of last 3 years' royalty. The Division, however, realised Rs.20.11 lakhs only by adopting the same rate of royalty for 1983-84 as was fixed for 1982-83. By adding 11 per cent on the royalty payable for 1983-84, the royalty of 27 lots of bhabhar grass allotted during 1984-85 worked out to Rs.25.44 lakhs as against Rs.24.26 lakhs realised by the Department.

For the year 1985-86, the Royalty Fixation Committee recommended in October 1986 that the royalty on Bhabhar grass be fixed by adding 6.44 per cent on the final royalty of 1984-85. It was, however, seen

during audit (April 1988) that against Rs.28.08 lakhs realisable from the Nigam as royalty on 28 lots of bhabhar grass allotted to it during 1985-86, the Division had realised Rs.25.83 lakhs only.

The total royalty short realised for the three years 1983-84 to 1985-86 amounted to Rs.4.47 lakhs.

(ii) Further, in the said division, 5 lots (4 during 1983-84 and 1 during 1984-85) were neither allotted to the Nigam nor these were exploited departmentally through any other agency. No reasons were given for non-exploitation. This resulted in loss of revenue of Rs.3.54 lakhs.

The above cases were reported to department and Government in September 1986 and June 1988; their replies have not been received (April 1989).

8.4. Non-levy or short levy of late fee

According to Government orders of September 1978, the Uttar Pradesh Forest Corporation was required to deposit instalments of royalty by specified dates and, in case of default, was liable to pay late fee at 2 paise per Rs.100 per day for

delay exceeding 30 days but not exceeding 60 days and at 5 paise per Rs.100 per day for delays exceeding 60 days.

Mention was made in Paragraph 8.4.3. of the Audit Report on Revenue Receipts for 1984-85 about non-realisation of late fee amounting to Rs.15.05 lakhs, for delay in deposit of instalments of royalty in respect of tendu leaves in five forest divisions (Renukoot, West Mirzapur, Obra, Varanasi and Jhansi). Similar delays in payment of royalty were noticed in four other divisions involving non-levy of late fee of Rs.47.32 lakhs as detailed below:

Sl. No.	Name of Division	Year	Delay in deposit of late fee of instalments (Number of days)	Amount levied/short-levied (Rupees in lakhs)
1.	South Pilibhit, Forest Division, Pilibhit.	1982-83	37 to 757	3.95
		1983-84	50 to 192	5.34
				<u>9.29</u>
2.	South Kheri Forest Division, Lakhimpur-Kheri	1983-84	92 to 455	5.10
		1984-85	90 to 111	1.03
				<u>6.13</u>

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(1)	(2)	(3)	(4)	(5)
3.	North Gonda	1982-83	43 to 170	1.69
	Forest Division	1983-84	40 to 392	19.52
	Gonda	1984-85	118 to 540	3.38
				<u>24.59</u>
4.	Tarai West Forest	1983-84	97 to 189	6.07
	Division, Ramnagar	1984-85	120 to 121	0.66
	Nainital	1985-86	119 to 121	0.58
				<u>7.31</u>
		<u>Total</u>		<u>47.32</u>

On the omission being pointed out in audit during December 1985, August 1987 and December 1987, the department stated in February/March 1988 that demand was raised in February 1986 in respect of South Pilibhit and in May 1987 in respect of South Kheri and in respect of other two divisions (North Gonda and Tarai West) efforts were being made to realise the late fee.

The cases were reported to Government between May 1986 and December 1987; their reply has not been received (April 1989).

8.5. Short realisation of sale price of resin

The Principal Chief Conservator of Forests made an additional allotment of

15,000 quintals of resin out of crop of the year 1984-85 to M/s Indian Turpentine and Rosin Company Limited, Bareilly in March 1985 at the rate of Rs.715 per quintal at which rate regular allotment of resin for that year was done. The allotment of additional resin to the Company was approved by Government in March 1986.

In the course of audit of the Yamuna Circle, Dehradun and the Garhwal Forest Division, Pauri, it was noticed that against the above additional allotment of 15,000 quintals, the department supplied 11,721 quintals (10,150 quintals during 1985-86 and 1,571 quintals during 1986-87) of resin to the Company. The sale price in respect of resin supplied during 1985-86 was recovered at the rate of Rs.715 per quintal fixed for 1984-85 (rate fixed for supply out of 1985-86 crop was Rs.800 per quintal) while that of 1,571 quintals supplied during 1986-87 was recovered at Rs.600 per quintal, the rate fixed for sale out of crop of 1986-87. Since the committed allotment of 29,608 quintals out of 1986-87 crop was fully supplied by the department to the Company, charging the supplies of 1,571 quintals out of 1984-85 crop at the rate of Rs.600 per quintal instead of Rs.715 was irregular and resulted in short realisation of sale price by Rs.1.81 lakhs.

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The matter was reported to Government in July 1988; their reply has not been received (April 1989).

8.6. Short realisation of lease rent

(a) The rate of lease rent was revised by the South Kheri Forest Division from Rs.250 to Rs.500 per acre with effect from July 1976 in terms of orders issued by Government on 24th July 1976.

It was noticed during audit of the said division in March 1988 that it had recovered lease rent from the Uttar Pradesh Van Nigam in respect of 217.90 hectares of forest land, occupied for its sale depots, from 1975-76, at Rs.500 per hectare instead of Rs.250 per acre. This resulted in short-realisation of lease rent of Rs.1.58 lakhs upto 1985-86.

On this being pointed out in audit in March 1988, the Division stated (March 1988) that the matter would be taken up with the Nigam. Further development has not been intimated (April 1989).

(b) In the same Division, two plots measuring 19.36 acres and 7.77 acres were leased to a private sugar mill in July

1936 and December 1951 respectively. According to Government orders of April 1980, premium equal to market value of the land and 10 per cent of it as annual rent was realisable from the mill with effect from January 1966 in respect of plot measuring 19.36 acres and from January 1972 for the other plot. On the basis of market rates of land intimated by the district revenue authorities, Rs.0.31 lakh as premium and Rs.0.59 lakh as annual rent upto December 1987 was realisable from the mill. However, against Rs.0.90 lakh thus recoverable, only Rs.0.09 lakh as rent was realised from the mill, resulting in short realisation of Rs.0.81 lakh.

On this being pointed out in audit in March 1988, the Division stated that action for recovery would be taken in consultation with higher authorities. Further report has not been received (April 1989).

The matter was reported to Government in April 1988; their reply has not been received (April 1989).

8.7. Failure to recover cost of missing railway sleepers

Under the rules for supply of sleepers to the Railways by the contractors

of the Forest Department, 90 per cent payment was to be made to them on approving the sleepers by the Department and 10 per cent after despatch. However, responsibility for loss or theft of sleepers, if any, before despatch rested with the contractors, as per condition (6) of the agreement.

In the Tarai West Forest Division, Ramnagar (Nainital), out of 27,896 sleepers approved by the Department between 1977 and 1982 only 24,773 sleepers were despatched to the Railways. The remaining 3,123 sleepers (117.48 cums.) valuing Rs.3.29 lakhs, in respect of which also payment of Rs.2.96 lakhs (being 90 per cent of Rs.3.29 lakhs) had already been made to 119 contractors were found missing. The amount of Rs.2.96 lakhs paid to the contractors in respect of missing sleepers was, however, not recovered from them although the shortages in despatch of sleepers had come to the notice of the Division in August 1985.

On this being pointed out in audit in October 1986, the Division intimated in June 1988 that action had since been taken to recover the amount as arrears of land revenue through the concerned District authorities.

The matter was reported to Government in January 1987; their reply has not been received (April 1989).

8.8. Non-observation of financial rules leading to misappropriation of fees.

According to the Financial Rules, all revenue realised should be remitted into treasury or bank with as little delay as possible.

In the North Gorakhpur Forest Division, Gorakhpur, the Range Officer, Nichlaul Range, who was authorised by the Divisional Forest Officer to issue transit passes, realised transit fees amounting to Rs.0.59 lakh between March and October 1987 but did not account for the same in the range cash book nor did he remit the amount into the treasury. The counterfoils of transit passes were also not returned by him to the Divisional Office. No action was taken by the Division to obtain the counter-foils and verify accountal of moneys realised. The misappropriation of revenue remained undetected till December 1987 when the matter was reported by the department to the police. The concerned Range Officer, who was due for retirement in January 1988, was reportedly absconding since 21st December 1987. He

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was placed under suspension in January 1988.

The failure to follow the prescribed rules/procedure was brought to the notice of Government in May 1988; their reply has not been received (April 1989).

CHAPTER 9

OTHER DEPARTMENTAL RECEIPTS

A-IRRIGATION DEPARTMENT

9.1. Results of Audit

Test check of the accounts and records of the thirty irrigation divisions, conducted in audit during the year 1987-88, revealed irregularities involving revenue of Rs.105.00 lakhs in 101 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-realisation of stamp duty	44	10.72
2. Unauthorised use of canal water	5	8.29
3. Non-recovery of rent from employees	5	3.72
4. Loss due to sale of tender forms at pre-revised rates	5	0.21
5. Non-realisation of sales tax from contractors	7	4.71
6. Other cases	35	77.35
Total	<u>101</u>	<u>105.00</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

9.2. Non-levy of punitive charges for unauthorised use of canal water

Under the provisions of the Northern India Canal and Drainage Act, 1983 and the rules framed thereunder, read with the Manual of Orders of the Irrigation Department, punitive charges are leviable for wastage or misuse of canal water. However, before ordering the levy of punitive charges in any case, the Divisional Officer has to satisfy himself that the case has been promptly investigated by a responsible officer not below the rank of a Zildar. Punitive charges so levied are also to be treated as assessment of occupier's rate and are to be included in the demand statement (Jamabandi) for recovery by the Revenue Department, as arrears of land revenue.

In eight irrigation divisions, 4,426 cases of misuse of canal water were reported between September 1983 and December 1987, covering unauthorised irrigation of 16,510.14 acres of land. The cases, which involved punitive charges amounting to Rs.17.57 lakhs, were not investigated and finalised till the date of audit, despite departmental instructions

issued in this regard.

The delay in investigation of cases was reported to the department between November 1985 and March 1988 and to Government in May 1988; their replies have not been received (April 1989).

9.3. Non-realisation of stamp duty on agreements

Government, by a notification issued on 14th January 1982, withdrew the exemption from levy of stamp duty on agreements/contract bonds executed for Government works. As such, all types of agreements became subject to stamp duty from 20th January 1982. As per Article 5(c) of Schedule I-B of the Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh), an instrument of agreement is chargeable with stamp duty of Rs.5 (increased to Rs.6 from 15th June 1982).

In seventeen irrigation divisions, on 46,353 agreements executed between 20th January 1982 and October 1987, no stamp duty was levied. This resulted in loss of revenue to the tune of Rs.2.74 lakhs.

On this being pointed out in audit (between June 1986 and November 1987), the

Divisional Officers stated that no such order had been received in the divisions.

The cases were reported to the department between July 1986 and December 1987 and to Government in May 1988; their replies have not been received (April 1989).

9.4. Non-levy of stamp duty on lease deeds

The Board of Revenue, Uttar Pradesh in their letter dated 26th October 1953 clarified that stamp duty on leases for ferry services, fishing rights and market leases given by auction was chargeable under Article 35(b) of Schedule I-B of the Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh), treating the full amount to be paid under the lease period as premium.

In three Irrigation Divisions (Etah, Rampur and Aligarh), 135 lease deeds for fishing rights were executed by the Divisional Officers with the leasees for various periods between 1968-69 and 1987-88 but no stamp duty was levied. On the basis of amounts (i.e., premium) indicated in the lease deeds, stamp duty payable worked out to Rs.74,079.

The cases were reported to the department between May 1987 and March 1988 and to Government in May 1988; their replies have not been received (April 1989).

9.5. Loss of revenue due to unauthorised retention of royalty by Van Nigam

According to the arrangement made by Government in April 1934 in respect of Banbasa Canal Forests (1,700 acres) belonging to the Irrigation Department, sale of trees and other forest produce of the area was to be arranged by the Forest Department and agreements for such sales were to be forwarded to the Executive Engineer of the Irrigation Department for formal sanction, signature and record in his office. All payments on account of security deposits and subsequently of the purchase money were to be made direct to the Executive Engineer of the Irrigation Department who held the overall executive charge of these forests and all such sums were to be credited direct to the revenue account of the Irrigation Department.

In the course of audit (August 1986) of the Headworks Division, Sarda Canal, Bareilly it was seen that as a departure from the aforesaid arrangement the collection of revenue was left to the

Forest Department from the very beginning and money as collected was passed on by the Forest Department to the Irrigation Department and this arrangement continued till 1978-79.

During the last auction of trees conducted by the Forest Department in 1978-79, the highest bid obtained was only Rs.1.75 lakhs. The same area had fetched, however, Rs.3.83 lakhs in 1976-77 and Rs.3.33 lakhs in 1977-78 in auction. Thereafter, each year, conduct of sales of Banbasa Canal Forest produce was allotted to Van Nigam, Pilibhit on payment of royalty to the Forest Department. Royalty payable by Van Nigam, Pilibhit, on the basis of method prescribed by Government from time to time, for the period 1978-79 to 1987-88 worked out to Rs.39.72 lakhs approximately. Against this Rs.8.55 lakhs only were paid by them to the Forest Department, out of which only Rs.1,750 were passed on by the Forest Department to the Irrigation Department.

On this being pointed out in audit (August 1986), the Executive Engineer, Sarda Canal, Bareilly stated (July 1988) that information regarding revenue realised by the Forest Department from Banbasa Canal Forests from 1979-80 onwards was awaited from the Forest Department and efforts were being made to recover the amount.

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The matter was reported to Government in July 1987; their reply has not been received (April 1989).

B-PUBLIC WORKS DEPARTMENT**9.6. Results of Audit**

Test check of the accounts and records of 21 Public Works Divisions, conducted in audit during the year 1987-88, revealed irregularities involving revenue of Rs.21.44 lakhs in 56 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Sale of tender forms at pre-revised rates	13	1.74
2. Non-realisation/short realisation of stamp duty	19	8.90
3. Non-recovery of rent	8	2.73
4. Other cases	16	8.07
Total	<u>56</u>	<u>21.44</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

9.7. Short levy of stamp duty on lease agreements

In accordance with the provisions of Article 35(b) of Schedule I-B of the Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh) and instructions issued by the Board of Revenue in October 1953, stamp duty on leases for ferry services and toll collections is to be levied treating the total amount (part paid in advance and rest agreed to be paid in instalments) as premium for which the lease has been granted since there is no rent reserved. This view is also held by the Allahabad High Court's full bench in the case of Sri Gajay Pal Singh vs. State of U.P.

In five Public Works Divisions (Agra, Bareilly, Etawah, Sitapur and Bahraich), stamp duty in respect of 32 lease agreements for collection of toll on 5 ferries and 17 bridges, executed by the Executive Engineers with the lessees between 1979-80 and 1984-85, was realised, treating the prescribed instalments as fixed rent (and not premium) under Article 35(a) of the Act ibid. Non-levy of stamp duty on the basis of the leases granted for premium resulted in short realisation of stamp duty of Rs.4.85 lakhs.

The cases were reported to the department between October 1986 and January 1988 and to Government in May 1988; their replies have not been received (April 1989).

9.8. mexphalt drums sold at substantially lower prices

As per the orders of the Chief Engineer, P.W.D., contained in his Circular No.1083 S.B./A.P.W. 20-M-20/68 dated 19.2.1982, the minimum selling price of serviceable empty mexphalt drums was fixed at Rs.25 per drum. The order envisages sale of empty drums through public auction after giving due publicity in newspapers. The parties interested in participation in the auction are required to be informed of the date, time and place of auction by the concerned Public Works Division by sending a copy of auction notice to them under registered postal certificate. The drums are required to be collected at suitable points and auctioned twice a year in February and August. Auction of all drums in a district should be fixed for the same day in order to make it attractive for parties, other than local contractors, to come and bid for them.

In provincial divisions at Pilibhit and Ballia, it was noticed (May 1985 and

December 1986) that, between March 1984 and January 1986, 20,978 serviceable empty drums were sold in auction to local contractors at the rate of Rs.16.10 and Rs.10 per drum respectively without following the prescribed procedure, thereby denying opportunity for participation by outside bidders in the auctions. Sale of 20,978 empty drums at substantially lower prices as compared to the minimum selling price fixed by the Chief Engineer resulted in loss of revenue at least amounting to Rs.3.12 lakhs.

The matter was reported to the department in May 1985 and January 1987 and to Government in May 1988; their replies have not been received (April 1989).

9.9. Acceptance of lowest bid without approval of Government

Under the Uttar Pradesh Tolls, Regulation, Levy and Collection Rules, 1980, the contracts for toll collections on any specified road bridge are to be awarded for a period ranging from one to five years after holding public auctions. Normally, the highest auction bid should be accepted. Rule 8 of the Uttar Pradesh Tolls, Regulation, Levy and Collection Rules, 1980, framed under the Indian Toll

Act, 1851, provides that the highest bid should be accepted and, if auction/negotiated offer is not the highest one, the lower auction bid/negotiated offer can only be accepted after getting prior approval of the State Government.

During audit of the Temporary Division, Public Works Department, Gorakhpur, it was noticed (May 1986) that the lease of the right to collect tolls on the Bhaurabari road bridge was put to public auction on 9th August 1985 in which four contractors were allowed to participate. The highest bid of Rs.1,50,100 and the lowest bid of Rs.70,200 were offered. The Divisional Officer recommended the highest bid for acceptance by the Divisional Commissioner. The Commissioner, however, accepted (26th August 1985) the lowest bid on the ground that other three higher bidders had not furnished certificates regarding their status, character and experience etc. and should not have been allowed to participate in the auction.

Once the bidders were allowed to participate in the auction, the lowest bid should not have been accepted without getting prior approval of Government. Non-acceptance of the highest bid resulted in loss of revenue amounting to Rs.79,900.

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The case was reported to the department in July 1986 and to Government in September 1988 and again in November 1988; their replies have not been received (April 1989).

C-AGRICULTURE DEPARTMENT

9.10. Results of Audit

Test check of the accounts and records of sixteen District Agriculture Offices, conducted in audit during 1987-88, revealed irregularities involving revenue of Rs.42 lakhs in 39 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-realisation of stamp duty on agreements	7	0.44
2. Non-realisation of sales tax at revised rates on fertilizers	9	1.26
3. Irregular grant of subsidy	7	4.82
4. Shortfall in farm produce	2	6.35
5. Non-realisation of licence/renewal fee from fertilizer dealers	2	21.05
6. Other cases	12	8.08
Total	<u>39</u>	<u>42.00</u>

A few important cases are mentioned in the succeeding paragraphs.

9.11. Shortfall in farm produce

According to the instructions issued (March 1977) by the Director of Agriculture, before harvesting crops in Government farms an estimate of production is required to be prepared on the basis of actual crop cuttings in selected areas by a Committee to be constituted by the Regional Deputy Director of Agriculture. As per norms fixed by the Director of Agriculture, variation between the estimated and actual farm produce should not be more than 10 per cent. Any loss due to variation in excess of 10 per cent is recoverable from the Farm Superintendent.

In the course of audit of District Agriculture Office, Aligarh, it was noticed (February 1988) that in rabi crops of 1984-85 and 1986-87 and kharif crops of 1984-85 to 1987-88, the variation between estimated and actual produce in five State owned farms was in excess of permissible limit of ten per cent, which resulted in shortfall in revenue to the extent of Rs.5.37 lakhs. There was nothing on record to show that any action was taken against the Farm Superintendents to recover the loss.

The case was reported to the department in March 1988 and to Government in June 1988; their replies have not been received (April 1989).

9.12. Irregular grant of subsidy on sale of fertilizer

Under the Government orders of 3rd February 1986, distribution of flood subsidy in the shape of agricultural inputs, viz., seeds, fertilizer, insecticides, pesticides etc., to small and marginal farmers was discontinued with immediate effect. No bills of subsidy on agricultural inputs, issued after 3rd February 1986, were to be honoured as per the said order.

In six District Agriculture Offices (Dehra Dun, Mathura, Ballia, Allahabad, Muzaffarnagar and Mirzapur), test check conducted during May 1987 to March 1988, it was seen that subsidy had been allowed on the sale of fertilizer even after 3rd February 1986. This resulted in irregular grant of subsidy amounting to Rs.3.76 lakhs.

The cases were reported to the department between June 1987 and March 1988 and to Government in May 1988; their replies have not been received (April 1989).

D-CO-OPERATION DEPARTMENT

9.13. Results of Audit

Test check of the accounts and records of four Assistant Registrars, Co-operative Societies, conducted in audit during the year 1987-88, revealed irregularities involving revenue of Rs.1.84 lakhs in 6 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-realisation of arbitration fee	1	0.07
2. Non-realisation of execution fee	1	0.98
3. Non-deposit of collection charges into treasury	4	0.79
Total	<u>6</u>	<u>1.84</u>

A few important cases noticed during 1987-88 and earlier years are mentioned in the succeeding paragraphs.

9.14. Non-deposit of collection charges in Government account

In terms of Section 130 of the Uttar Pradesh Co-operative Societies Act, 1965, the State Government may make Rules to carry out the purposes of the Act. According to rule 363 of the Uttar Pradesh Co-operative Societies Rules, 1968 framed by Government any amount received or realised as fee or otherwise under the Uttar Pradesh Co-operative Societies Act, 1965 is to be deposited in full into the treasury under the head of Account as specified by the State Government or the Registrar, Co-operative Societies, U.P. from time to time. However, according to the Uttar Pradesh Co-operative Societies Collection Fund Regulations, 1982 framed by the Registrar and circulated on 19th January 1983, one per cent of the total collection charges (10 per cent of the arrear amounts recovered on behalf of Co-operative Societies) realised during the previous year by the department from beneficiaries of loans is to be deposited into the Government treasury, $\frac{1}{4}$ per cent in Head office Collection Fund Account and the remaining in District Collection Fund Account. These regulations are not consistent with the rules framed by the Government. According to the regulations framed by the Registrar, pending decision

about the head of account to which the one per cent of the collection charges were to be credited, the amount was to be kept in a reserve account.

In the course of audit of the offices of 23 Assistant Registrars, Co-operative Societies, between 1984-85 and 1985-86, it was noticed that a total amount of Rs.340.19 lakhs, being 10 per cent collection charges for arrear dues recovered on behalf of various co-operative societies during the period 1981-82 to 1985-86, was kept in a separate bank account. Even one per cent of this amount (Rs.3.40 lakhs) was not credited to Government account as contemplated in the regulations framed by the Registrar. The authority under which the Uttar Pradesh Co-operative Societies Collection Fund Regulations, 1982 were framed by the Registrar is not ascertainable.

The matter was reported to the department between June 1984 and September 1986 and to Government in April 1988; their replies have not been received (April 1989).

9.15. Non-realisation of fee for execution proceedings

Under the Uttar Pradesh Co-operative Societies Act, 1965 read with

the Uttar Pradesh Co-operative Societies Rules, 1968, the Registrar, Co-operative Societies may, on an application made by a society and on receipt of fee prescribed for the execution proceedings, issue a certificate for recovery of the amount due to the society.

In two offices of the Assistant Registrars, Co-operative Societies (Shahjahanpur and Mirzapur), 10,923 certificates for recovery of dues amounting to Rs.245.06 lakhs were issued between 1984-85 and 1987-88 on receipt of applications from the societies without realising the prescribed fee amounting to Rs.1.05 lakhs for execution proceedings.

The cases were reported to the department in September 1986 and April 1988 and to Government in June 1988; their replies have not been received (April 1989).

E-FOOD AND CIVIL SUPPLIES DEPARTMENT

9.16. Results of Audit.

Test check of the accounts and records of five District Supply Offices, conducted in audit during the year 1987-88, revealed irregularities involving revenue of Rs.2.15 lakhs in 8 cases, which broadly fall under the following categories:

	Number of cases	Amount (In lakhs of rupees)
1. Non-renewal of licences by cloth dealers	2	1.59
2. Non-forfeiture of security of coal dealers	4	0.34
3. Non-realisation of enhanced cost of sugar	1	0.08
4. Non-realisation of cost of ration cards	1	0.14
Total	<u>8</u>	<u>2.15</u>

F-INDUSTRIES DEPARTMENT**9.17. Non-recovery or short recovery of application fee and royalty from brick kiln owners**

Under the U.P.Minor Mineral (Concession) Rules, 1963, the owner of a brick kiln intending to use brick earth for preparation of bricks shall apply for the grant of a mining permit; accompanied by the prescribed permit fee (Rs.50 upto 30th October 1984 and Rs.200 thereafter). Within 15 days of the grant of the permit, the applicant shall deposit the royalty at prescribed rates, in advance, for the total quantity of the brick earth permitted to be used. In the districts of Farrukhabad and Aligarh, the rates of royalty payable during 1986-87 were as follows:

<u>District</u>	<u>Urban areas</u>	<u>Rural areas</u>
Farrukhabad	Rs.4,000 per annum upto 20 lakh bricks	Rs.3,000 per annum upto 15 lakh bricks
Aligarh	Rs.5,000 per annum upto 25 lakh bricks	Rs.4,000 per annum upto 20 lakh bricks

As per the executive instructions issued from time to time, the District Supply Officer should not issue/renew any licence for purchase of coal unless the brick kiln owners produce the mining permit in proof of payment of royalty and fee.

(i) On a scrutiny of the list supplied by the District Supply Officer, Farrukhabad to the District Collector, showing the names of 91 brick kiln owners to whom licences for purchase of coal were issued during 1986-87, it was noticed that 47 brick kiln owners had obtained licences for purchase of coal without obtaining mining permits. This led to non-realisation of Rs.1.50 lakhs as application fee and royalty, calculated at the (lower) rate as applicable to rural areas.

(ii) In respect of 70 brick kiln owners in Farrukhabad district, application fee was realised for the period from 31st October 1984 to March 1987 at the pre-revised rate of Rs.50, instead of the correct rate of Rs.200. This resulted in short realisation of fee amounting to Rs.10,500.

(iii) In Aligarh district also, application fee and royalty amounting to

Rs.6.26 lakhs were due from 149 brick kiln owners who were granted licences for purchase of coal during April 1986 to December 1986. As against this, Rs.2.15 lakhs only were deposited as royalty and fee. Thus, a majority of the brick kiln owners obtained licences for purchase of coal without obtaining mining permits resulting in non-realisation of application fee and royalty of Rs.4.11 lakhs.

On the above cases being pointed out in audit in July 1987, the District Magistrate, Aligarh intimated in August 1988 that the amount of Rs.4.11 lakhs had since been realised from the brick kiln owners. The reply from Farrukhabad unit has not been received (April 1989).

The matter was reported to Government in March 1988; their reply has not been received (April 1989).

G-FINANCE DEPARTMENT

9.18. Recoveries of interest on loans and advances

9.18.1. Introduction

Interest Receipts is one of the principal sources of non-tax revenue of the State. Interest is realised on loans granted to (i) departmental commercial undertakings, (ii) Government Companies and Corporations, (iii) Local bodies, (iv) Co-operative Societies and (v) Cultivators and other individuals by Government from time to time.

The revenue receipts from 'interest' constituted 37 to 46 per cent of the total non-tax revenue of the State during the years 1983-84 to 1987-88, as shown below:

Year	Total non-tax revenue of the State	Interest receipts	Percentage of interest receipts to total non-tax receipts
1983-84	404.75	151.19	37
1984-85	384.39	160.77	42

(1)	(2)	(3)	(4)
1985-86	523.90	180.00	34
1986-87	502.11	213.86	43
1987-88	631.39	295.58	46

9.18.2. Scope of Audit

The review relates to study of system of interest realisation efforts of the State Government on the loans made to loanees by the Co-operation, Industries and Urban Development Departments. The loans are financed by bodies like National Co-operative Development Corporation (NCDC), National Bank for Agricultural and Rural Development (NABARD), Life Insurance Corporation of India on soft terms for financing the beneficiaries in co-operative, industries and housing sectors in the State Government. The State Government lends administrative support, keeps accounts and realises interest for repayment to the financing bodies in a manner prescribed by them. Since the responsibility of realisation on these loans and interest devolves on the State Government, an attempt has been made in the review to cover the arrangements made and efforts undertaken by the State

Government. In this regard, the performance of the State Government for the period 1982-83 to 1986-87 has been generally covered in the review, though information relevant and available for the earlier period has also been mentioned at some places.

9.18.3. Organisational set up

The Registrar, Co-operative Societies, Directors of Industries and Handlooms and Textiles and Sugar Commissioner are to keep detailed accounts of loans sanctioned by Government and watch recovery of loans and interest thereagainst. The loans are drawn and disbursed by these departmental heads. The Industries Department makes these loans available to the State finance corporation and other industrial undertakings for financing the needs of beneficiary and meeting the requirements of public undertakings in specific areas. Under the Co-operative sector, the Assistant Registrars keep a watch on the recovery from the co-operative societies apart from maintaining detailed accounts, but overall monitoring devolves on the Registrar.

9.18.4. Highlights

1. Proper records of loans amounting to Rs.376.54 crores sanctioned by

Government and recovery of loans and interest thereagainst were not maintained.

2. The arrears of interest due in the Directorate of Industries increased from Rs.655.83 lakhs (at the end of March 1987) to Rs.979.81 lakhs (at the end of March 1988).

3. Overdue interest amounting to Rs.1.41 crores and interest due amounting to Rs.1.63 crores was neither paid by a Corporation nor demanded by Government.

4. Demand for penal interest amounting to Rs.86 lakhs against Development Authority, Varanasi was not raised.

5. Interest amounting to Rs.1.10 crores was realisable due to delay in refund of unutilised loan amounts, but it was not demanded.

6. No action was taken to recover interest amounting to Rs.2.72 crores from U.P.State Cement Corporation Ltd.

7. Due to lacunae in the sanctions not providing for penal interest or levy of interest, Government suffered a minimum loss of Rs.56.15 lakhs.

8. In case of 16 loanee organisations, interest/penal interest not recovered amounted to Rs.21.33 crores.

9. In case of 5 other organisations whose loans were treated fully discharged, interest/penal interest amounting to Rs.3.72 crores was found due from the loanees, the department agreed to raise demands on being pointed out in audit.

9.18.5. Non-maintenance or incomplete maintenance of records

As per financial rules of the State Government, records of the loans and advances sanctioned by the departmental authorities with Government's approval are to be kept by the loan sanctioning authorities. The periodical recovery along with the interest vis-a-vis the terms and conditions as well as the rates are to be reflected in the records to facilitate continuous monitoring of the recovery portion.

The Registrar, Co-operative Societies and Directors of Industries and Handlooms and Textiles are responsible for keeping detailed accounts of the loan finances and recovery thereagainst.

(i) Government (in the two

departments of Co-operation and Industries) sanctioned loans to the tune of Rs.376.54 crores for arranging payments to co-operative societies under various development schemes through the Heads of Departments during the period from 1972-73 to 1987-88. Out of this amount, detailed accounts for Rs.291.42 crores were to be maintained by the Registrar, Co-operative Societies and for Rs.85.12 crores by the Director of Industries, U.P., as detailed below:

Loan sanctio- ning auth- ority	Head of the Department through whom loans were paid to units	Amount of loan (period of loan)	Amount of inte- rest received by Gov- ernment
(In crores of rupees)			
(1)	(2)	(3)	(4)
Government (Co-opera- tion Depart- ment	Registrar, Co-operative Societies, Lucknow	291.42 (1977-78 to 1986-87)	*
Government (Industries Department)	Director of Industries	85.12 (1972-73 to 1986-87)	*

(* : No records were maintained, hence not made available to Audit.)

Loans have been paid to the Director, Handlooms and Textiles but no account is maintained (for example, loans totalling Rs.87.69 lakhs were received during the period 1981-82 to 1986-87 by the Director, Handlooms and Textiles under the scheme for modernisation of handlooms).

According to the financial rules, detailed accounting records in respect of amounts of loans (as shown in column 3 of the above table) were to be kept by the authorities responsible therefor (as shown in column 2). However, in the absence of records it could not be ascertained whether all the loans were actually passed on to the appropriate units on prescribed terms and conditions laid down by the financing institutions and whether repayments of the principal and interest due were being correctly worked out and accounted for.

(ii) A scrutiny of records maintained by the Director of Industries revealed the following:

(a) As per general financial rules, the Director of Industries was responsible for monitoring the loans granted under various industrial development schemes to various corporations, undertakings and other industrial units etc. No centralised records to keep watch over the yearly

amounts of principal and interest due vis-a-vis that actually recovered were, however, maintained in the Director's office. It was stated that account records were maintained at district level which are reported to headquarters and compiled before reporting progress to Government. The position of arrears of principal and interest, as reported by the district authorities, was as under:

Loanees	Position of arrears as on			
	<u>31st March 1987</u>		<u>29th February</u>	
	Principal	Inter- rest	Princi- pal	Interest
	(In lakhs of rupees)			
Corpora- tions	516.77	308.32	512.41	316.60
Depart- mental loans	159.30	96.56	159.57	98.65
Miscella- neous loans	285.80	213.80	329.14	212.86
Total	<u>961.87</u>	<u>618.68</u>	<u>1001.12</u>	<u>628.11</u>

(b) With the establishment of autonomous bodies, corporations and Government undertakings from time to time,

loans to such and other local bodies, co-operative institutions, mills etc. under public and co-operative sectors were being released by the Director of Industries, records of which were to be kept in Personal Ledger Accounts of such bodies. As a drawing officer (bill countersigning authority), it was the responsibility of the Director of Industries to watch and ensure that the conditions attached to loans were fulfilled and recoveries were effected in time according to the prescribed terms and conditions. It was, however, observed by Government in July 1986 that information regarding repayment of principal and interest was neither maintained/available with Government (Administrative Department) nor with the Director of Industries, and it was left to the concerned corporations/undertakings to furnish the requisite information to the Director of Industries/Government.

(c) An analysis of the statements from 12 (out of 16) loanee corporations/authorities, made available at the Director (with no detailed ledger etc. maintained in the Directorate), revealed (June 1988) that the arrears of interest increased from Rs.655.83 lakhs as at the end of March 1987 to Rs.979.81 lakhs as at the end of March 1988, as indicated below:

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	Principal (In lakhs of rupees)	Interest
Payments due	1573.15	1322.35
Payments made	870.22	666.52
Balance as on	'(44.7%)	(49.5%)
31st March 1987	<u>702.93</u>	<u>655.83</u>
Balance as on 31st March 1988	804.05	979.81
Percentage increase during 1987-88	14.4	49.4

The compliance of the Government directions of July 1986 regarding maintenance of records was not made by the Director of Industries till the date of audit (June 1988).

(iii) A Corporation with Head office at Kanpur was sanctioned loan of Rs.1.13 crores during the period March 1971 to March 1974, on which overdue interest amounting to Rs.1.41 crores was neither paid by the Corporation to Government nor was demanded by the Director of Industries (June 1988). Ledgers relating to the loans sanctioned upto the year 1976-77 were incomplete. However, test check of 13 loans of Rs.2.15 crores sanctioned during

the aforesaid period to the Corporation revealed that interest to the tune of Rs.1.63 crores was due to Government upto March 1988, but it was neither paid by the Corporation nor was demanded by the Government. The Corporation promised to complete the ledgers of the aforesaid period and initiate measures to recover the amounts due,

(iv) In case of another Corporation of Kanpur, incorrect maintenance of records led to short raising of demands of interest of Rs.36 lakhs (upto 31st March 1988) in respect of loans sanctioned during the period 1973-74 to 1987-88.

(v) In case of Development Authority, Varanasi, it was noticed that in 54 cases loans amounting to Rs.6.15 crores were sanctioned during the year 1986-87. Government, vide order dated 28th November 1987, rejected the proposal of the Authority to convert/grant moratorium for payment of the principal (Rs.0.32 crore) and interest (Rs.0.86 crore) due to Government upto March 1987. The amount was, however, not paid till the date of audit (July 1988).

It was also noticed that the ledgers of the loans granted to the said Authority were incomplete, in the absence

of which exact amount of penal interest due in default cases could not be ascertained in audit. However, in a few cases pertaining to the period 1979-80 to 1987-88, penal interest was worked out by audit and it amounted to Rs.83 lakhs. Thus, due to incomplete records, huge demands could not be raised against the loanees by the department.

9.18.6. Defects in the Accounting System

The accounting system, as adopted by some of the departments/agencies of the State Government, was not according to sound principle of finance, as may be seen from the following analysis.

(i) Delay in refund of loans on failure of the Scheme

(a) Loans to 3 units aggregating Rs.3.17 crores, sanctioned by Government (Industries Department) for different industrial purposes, were drawn (between September 1976 and March 1982) from the treasury and kept in the Corporation's bank account, i.e., out of Government account pending release to the beneficiary societies. These amounts were redeposited (between October 1978 and June 1988) into treasury after delays of more than one year. Keeping huge loan amounts out of

Government account after drawal from the treasury was irregular and affected ways and means position of Government.

In respect of these loans to 3 units, interest at the normal rate provided in the sanction order was paid by the Managing Director, Handloom Corporation, whereas the U.P.Brassware Corporation and Director, Handlooms and Textiles did not pay any interest at all. As the loans were not utilised for the purposes for which they were sanctioned, interest at normal rate, i.e., without allowing the rebate @ $2\frac{1}{2}$ per cent admissible for prompt refunds on due dates, should have been realised from them for delays in refunding the unutilised amount. Loss of interest on this account worked out to Rs.1.10 crores, as indicated below:

Name of the loanee org- anisation	Amount of loan (period of loan drawn)	Unutilised amounts refunded (date)	Loss of interest
(Amount in crores of rupees)			
1.U.P.Hand- loom Cor- poration	2.79 (6.9.76 to 17.1.79)	2.79 (12.10.78 to 11.10.79)	0.39 (@ $2\frac{1}{2}\%$)
2.Director,	0.13	0.13	0.20

(241)

(1)	(2)	(3)	(4)
Handlooms & Textiles	(31.3.87)	(23.6.88)	(@ 12½%)
3.U.P.Brass-ware Corporation	0.25 (May 1981 - March 1982)	0.07 (October 1987)	0.51 (@13½%) (March 1982 to October 1987)
Total	<u>3.17</u>	<u>2.99</u>	<u>1.10</u>

(b) A sum of Rs.2.37 crores (comprising 50 per cent as loan and 50 per cent grant) sanctioned to the U.P. Handloom Corporation Ltd. towards "Flood Relief Fund" in January 1979 was kept in bank account of the Corporation. The amount (Rs.1.19 crores) of grant was utilised, whereas the loan portion (Rs.1.18 crores) was refunded unutilised in October 1979. No interest was realised for the period from January 1979 to October 1979.

(c) Another set of loans amounting to Rs.87.70 lakhs sanctioned to the Director, Handlooms and Textiles and drawn from treasury between March 1982 and March 1987 were utilised only in part. Out of Rs.52.70 lakhs withdrawn from Personal Ledger Account, only Rs.37.70 lakhs were utilised and the balance Rs.15.00 lakhs was

deposited back into Government treasury on 21.8.1987. No account of the interest earned during the period this amount was kept out of Government account and the amount actually paid back to Government by the Corporation was available.

(ii) In respect of the loans of Rs.9 crores sanctioned to the U.P.State Cement Corporation Ltd. during the period November 1984 to January 1986, no action was taken till the date of audit (June 1988) to recover the interest which amounted to Rs.2.72 crores upto June 1988.

9.19.7. Co-ordination and monitoring device

The loan finances available on soft terms from financing institutions are passed on by the State Government through the respective Directorates and Registrars to the drawing and disbursing officers who act as direct link with the beneficiaries. This arrangement calls for a high degree of co-ordination among all the agencies involved to keep an effective watch and control over the recovery. Test check, however, revealed that

(i) Neither detailed accounts of the bank drafts received from the lending

institutions were kept at Government level nor the distribution details kept at the level of the departmental heads.

(ii) The Registrar, Co-operative Societies and the Directors of Industries as well as Handlooms and Textiles Corporation were not maintaining any year-wise consolidated records indicating yearwise details of arrears of the principal amounts as well interest due thereon. Additional demands raised in the course of the year were also missing from the records. In the absence of relevant records and figures, the nodal agencies were hardly aware of the position of recoveries of principal and interest due and recovered, leaving alone the aspect of initiating action.

9.18.8. Loss of interest due to lacunae in the terms and conditions of loans

Financial rules provide that in cases of default in repayment of loan, interest is to be charged at higher rate by $2\frac{1}{2}$ per cent over the normal prevailing rate from the loanees concerned; a provision is to be made to this effect in the conditions of the sanction itself.

(a) Interest-free loans amounting to Rs.24.51 crores were sanctioned to two

Government Corporations and one industrial undertaking between 1980-81 and 1986-87, as indicated below:

Name of the loanee unit	Period/date of sanction/ drawal of loans	Amount of loans (In lakhs of rupees)	Terms of repay- ment
1. Auto Tractors Ltd, Pratapgarh	Upto 1982-83	290.17	In 5 equal annual instal- ments, commen- cing 3 years after the date of dra- wal
	1983-84	285.00	
	1984-85	250.00	
	1985-86	458.00	
	1986-87	250.00	
	Total	<u>1533.17</u>	
2. U.P. Handloom Corporation Ltd., Kanpur	July 1984	100.00	Lump sum after one year
	Dec. 1984	100.00	
	Total	<u>200.00</u>	
3. U.P. State Industrial Development Corporation Ltd., Kanpur	Aug. 1984	10.00	3 years after the date of dra- wal
	Dec. 1984	53.00	
	Total	<u>63.00</u>	

(245)

(1)	(2)	(3)	(4)
*March 1986	146.00		In 7
			equal
*Jan. 1987	509.00		annual
			instal-
Total	<u>655.00</u>		ments
			after
			repay-
			ment of
			loan
Grand Total	<u>2451.17</u>		from
			I.D.B.I.

(* These indicate dates when repayment became due)

Sanctions of these loans did not provide for any penal interest clause in the event of non-repayment of loans/instalments of loans on due date. It was noticed that none of these loans and/or instalments due had been repaid till date of audit (June 1988). In the absence of the clause for penal interest, as envisaged in the general financial rules, Government was deprived of interest amounting to Rs.40.40 lakhs (calculated up to June 1988) in these cases.

(b) A loan of Rs.10 lakhs was sanctioned to the U.P.Small Industries

Corporation, Kanpur in February 1974. In the sanction order, neither any rate of interest was prescribed nor it was declared to be interest-free. The loan had not been repaid till date of audit (June 1988). Calculated at the then prevailing rate of interest, viz., 10½ per annum, the loss of interest worked out to Rs.15.75 lakhs upto 31st March 1988.

(c) Interest-free loans amounting to Rs.1654.50 lakhs were sanctioned to the Land Development Bank during the period from 1958-59 to 1986-87 without inclusion of any penal clause. Of these loans, Rs.458.87 lakhs were refundable in 10 equal annual instalments after the expiry of 10 years from the dates of their drawals, whereas Rs.1195.63 lakhs were refundable in 5 equal annual instalments after the expiry of one year. Available records revealed that the Bank generally defaulted in repayment of loan and overdue instalments rose from Rs.1.50 lakhs in 1969-70 to Rs.443.46 lakhs in 1986-87. Neither Government nor the Registrar, Co-operative Societies initiated any action for realisation of the aforesaid amount till June 1988. Due to non-provision of penal clause in these sanction orders, the State Government was also deprived of penal interest right from 1969-70 onwards. For 1986-87 alone penal interest leviable worked out to Rs.11.09 lakhs.

9.18.9. Irregularities in working out interest

The Registrar, Co-operative Societies adopted a system of taking the total amount of the principal and interest due as on 1st April each year as opening balance, on the basis of the closing balance of the previous year. Thereafter, on the basis of the records available, which were found to be incomplete in many cases, both at the Registrar and district levels, the amounts of principal and interest due during the year (allowing rebate on interest in all cases without ascertaining default in repayment in individual cases) were added and, after deducting amounts of recoveries of principal and interest reported by the district units, closing balances each year were worked out. Thus, no yearwise details of the amounts due were available either at the Registrar level or at the district level, and it cannot be said that recoveries effected during the current year were actually against the demands of the current year. If the payments were really current and up-to-date, there could be no closing balance at all. On the contrary, at the end of the year 1986-87, overall percentage of recoveries in respect of loans to apex bodies was 44.7 and that in respect of loans to other co-operative societies was only 0.8. There was, thus, little justification for presuming that the recoveries were made on due dates.

On account of the aforesaid irregular practice (without maintaining any supporting yearwise records/data at district level as revealed during test check in audit of six district units), demands for interest were raised short continuously. The progress report sent by the Registrar, Co-operative Societies to Government (Co-operation Department) at the end of 31st March 1987 was thus understated.

9.18.10.(i) There were strict instructions from Government (Finance) to effect cent per cent recoveries of the principal amounts of loans and interest due. However, recoveries effected from co-operative societies other than apex bodies represented only 5.03 per cent (of loan due) and 6.04 per cent (of interest due) in the year 1982-83, and the percentage went on diminishing thereafter reaching below one per cent in the last two years 1986-87 and 1987-88 (up to February 1988), as shown below:

Recovery of interest from other Co-operative

Year	<u>Societies</u>		<u>Amount recovered</u>	
	<u>Progressive</u>		<u>during the year</u>	
	<u>amount due</u>		<u>Princi-</u>	<u>Interest</u>
	<u>pal</u>	<u>Interest</u>	<u>pal</u>	
	(In lakhs of rupees)			
1982-83	540.84	802.45	27.23	48.73
			(5.03)	(6.04)

1983-84	652.37	922.64	20.86 (3.2)	22.38 (2.22)
1984-85	762.03	1089.09	21.49 (2.82)	20.31 (1.86)
1985-86	910.29	1283.89	35.29 (3.87)	37.05 (2.88)
1986-87	996.84	1414.98	9.68 (0.97)	8.88 (0.67)
1987-88 (upto February 1988)	987.16	1406.10	0.68 (0.07)	0.33 (0.02)

(In the last two columns, the figures within brackets represent percentage of recovery).

(ii) An analysis for the period from 1982-83 to 1987-88 revealed that as against the amount of Rs.4634.58 lakhs due as interest on loans advanced to apex bodies, a sum of Rs.2073.45 lakhs (about 44.7 per cent) was recovered. Percentage of recoveries of principal and interest came down from 98 and 74 in 1983-84 to 21.5 and 7.5 respectively in the year 1987-88 (upto February 1988).

9.18.11. Short recovery of interest/non-recovery of penal interest

As per provisions in the rules, if any instalment of principal or interest is not paid by the loanee on due date, there shall be levied and recovered penal interest, as prescribed in Government orders, over and above the normal rate of interest on all such overdue instalments of loan and interest for the period of default.

(1) Test check in audit revealed that although the instalments of principal or interest were overdue for repayment in a number of cases, no penal interest in respect of such defaults was demanded by the department. A few such cases involving short recovery of interest/non-levy of penal interest to the tune of Rs.21.33 crores are given below:

Name of loanee Organisation	Period during which loan was paid	Amount of loan paid	Short recovery of interest/non-levy of penal interest @ 2½ percent
(1)	(2)	(3)	(4)
(In lakhs of rupees)			
1. Sahkari Katai Mill, Bulandshahr	1977-78 to 1983-84	251.50	270.90

(251)

(1)	(2)	(3)	(4)
2.U.P.Co-operative processing and Cold Storage Federation	1967-68 to 1979-80	11.50	212.73
3.Auto Tractors Ltd.	1981-82	217.53	199.41
4.U.P.Co-operative Spinning Mills Federation	1977-78 to 1987-88	977.00	590.00
5.Varanasi Development Authority, Varanasi	1958-59 to 1986-87	871.00	271.00
6.U.P.Housing and Development Board	1968-69 to 1985-86	975.00	193.00
7.U.P.Co-operative Bank Ltd., Lucknow	Only penal interest not demanded by Registrar, Co-operative Societies, Lucknow (Period 1967 to 1987)	1938.43	96.26

(252)

(1)	(2)	(3)	(4)
8.U.P.Handloom Corporation	Sept.1976 to Feb. 1986	677.50	99.14
9.Asstt. Director Handlooms and Textiles,Kanpur		50.81	53.74
10.Amitabh Tex-tiles,Dehradun	March 1959 to Jan. 1960	21.00	35.77
11.U.P.S.I.D.C.	Feb.1985 to March 1986	181.00	54.40
12.NOIDA	Nov.1984 to Nov.1987	125.00	4.49
13.Bhadohi Industrial Development Authority	Upto March 1988	9.26	
14.U.P.Consu-mers Co-operative Federation	Only penal interest (period 8/86 to 10/86)	115.00	11.98
15.U.P.Co-operative Feder-ation	1973 to 1975	125.00	30.98

(253)

(1)	(2)	(3)	(4)
16. Allahabad Development Authority	1976-77 to 1987-88	37.71	8.92
	Total	6584.24	2132.72

(ii) The Registrar, Co-operative Societies closed the recovery proceedings of principal and/or interest against 5 loanee organisations in their ledgers, treating them as fully discharged, whereas as per audit scrutiny, interest/penal interest to the tune of Rs.3.72 crores was due from them for recovery for the period from 1968-69 to 1987-88.

On this being pointed out in audit, the department agreed to raise additional demands (June 1988). Report on recovery has not been received (April 1989).

(ii) A Corporation of Moradabad was required to pay Rs.72.40 lakhs towards principal and Rs.60.10 lakhs towards interest to Government upto March 1988 on the loans of Rs.1.38 crores paid during the period 1976-77 to 1985-86. Recovery proceedings were not initiated against the loanee (June 1988).

(iv) Jal Nigam defaulted in payment of principal (Rs.16.08 crores) and interest (Rs.32.32 crores) due to Government on 31st March 1988 on the loans sanctioned (after 1980-81) during the period from 1981-82 to 1987-88. No action to recover the said amounts was taken till June 1988.

9.18.12. Other points of interest

(i) Non-recovery of interest from sugar factory

Rs.32.18 crores were advanced as loans to private sugar factories by the State Government (Industries) through the Sugar Commissioner during the years 1984 to 1987, out of which only Rs.0.42 crore (1.3 per cent) were repaid to Government, leaving a balance of Rs.31.76 crores unpaid. On the said unpaid balance, Rs.6.19 crores were rescheduled by Government (in order dated 14th January 1987) as term loan thereby leaving a balance of Rs.2.48 crores still due to Government from the loanees for which no action was initiated till June 1988 to effect recovery. Moreover, the aforesaid Government order was deficient in as much as no penal clause was included in case of defaults in repayments by the loanees concerned.

(ii) Perpetual loan

For repayment of loans, the State

Financial Rules provide a maximum period of 30 years in exceptional cases only. Two seed capital loans of Rs.40 lakhs each were sanctioned to the Development Authority, Bhadohi (district Varanasi) during the period 1982-83 to 1983-84, for which terms of refund of the principal were not stipulated and interest at the rate of 6 per cent per annum was payable to Government. The Development Authority defaulted in payment of interest as well to the extent of Rs.9.26 lakhs upto March 1987.

No demands were raised. No penal clause was also included in case of default in payment of interest on due dates, resulting in loss of Rs.4.11 lakhs by way of penal interest at the rate of 2½ per cent.

(iii) Non-observance of terms and conditions of loan granted by Central Government

A loan of Rs.20 lakhs was sanctioned by the Central Government to the State for extending loan facilities to the State Cooperative Banks on the terms and conditions laid down by the former. The rate of interest and period of repayment were also fixed.

In contravention of the aforesaid conditions, the State Government passed on the said amount to the beneficiary units on

18th July 1983 at higher rate of interest than those prescribed by the Central Government. As a result, a sum of Rs.7 lakhs was charged in excess towards interest from the beneficiaries during first 10 years of the moratorium period and Rs.2 lakhs in default cases.

(iv) **Abandoning schemes financed by other financial bodies**

Scrutiny of the information/data obtained from the National Co-operative Development Corporation, New Dehli (NCDC) revealed that assistance, by way of reimbursement of Rs.620.42 lakhs was obtained by the State Government (Co-operation Department) during the period from 1977-78 to 1984-85 from the aforesaid Corporation, for construction of godowns and cold storages during the aforementioned period. The construction of 9 godowns and 8 cold storages was, however, dropped by the State Government, as a consequence of which the N.C.D.C. recovered the balance of loan assistance of Rs.57.65 lakhs vide its letters dated 14th May 1986 and 18th August 1986 in respect of 8 godowns and 8 cold storages. Particulars of the 9th cold storage and reasons for the abandonment of construction of the said godowns and cold storages, were not intimated by Government.

In the absence of detailed information/data both at Government level and at the level of the Registrar,

Co-operative Societies, audit could not verify the amounts of loan and interest outstanding against the concerned co-operative societies to whom the original loan assistance was extended for construction of godowns/cold storages before availing the reimbursement facilities from the N.C.D.C.

The foregoing points were reported to Government in September 1988; their reply has not been received (April 1989).

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Lucknow
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126 SEP 1989

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NEW DELHI
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4 OCT 1989

