

दिनांक को विधान सभा
में प्रस्तुत ।
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on
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**REPORT OF THE
COMPTROLLER AND AUDITOR GENERAL
OF INDIA**

**FOR THE YEAR ENDED 31 MARCH 2008
(REVENUE RECEIPTS)**

GOVERNMENT OF CHHATTISGARH

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PREFACE

This report for the year ended 31 March 2008 has been prepared for submission to the Governor under article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This report presents the results of audit of receipts comprising taxes on sales/trade, state excise, taxes on vehicles, land revenue, other tax receipts, mineral concessions, fees and royalties and other non-tax receipts of the State.

The cases mentioned in this report are among those which came to notice in the course of test audit of records during the year 2007-08 as well as those which came to notice in the earlier years but could not be covered in the previous reports.

OVERVIEW

This Report contains 21 paragraphs including two reviews, relating to non/short levy of tax, interest, penalty etc. involving Rs. 92.87 crore. Some of the significant audit findings are mentioned below.

General

The total receipts of the Government of Chhattisgarh during 2007-08 were Rs. 13,878.65 crore as against Rs. 11,453.24 crore for the year 2006-07. The revenue raised by the Government amounted to Rs. 7,638.55 crore comprising tax revenue of Rs. 5,618.10 crore and non-tax revenue of Rs. 2,020.45 crore. The receipts from the Government of India were Rs. 6,240.10 crore, (State's share of divisible Union taxes: Rs. 4,034.98 crore and grants-in-aid: Rs. 2,205.12 crore). Thus, the State Government could raise 55 per cent of the total revenue. Taxes on sales, trade etc. (Rs. 3,023.70 crore), state excise (Rs. 843.10 crore), stamp duty and registration fee (Rs. 462.72 crore) and non-ferrous mining and metallurgical industries (Rs. 1,031.55 crore) were the major sources of tax and non-tax revenue during 2007-08.

(Paragraph 1.1)

The arrears of revenue aggregating Rs. 381.68 crore remained unrealised under some principal heads of revenue at the end of 2007-08. The arrears were mainly in respect of taxes on sales, trade etc., state excise, taxes on vehicles, electricity duty and irrigation.

(Paragraph 1.4)

Test check of the records of commercial tax, taxes on motor vehicles, stamp duty and registration fee, land revenue, state excise, forest and other non-tax receipts conducted during the year 2007-08 revealed underassessment/short levy/loss of revenue amounting to Rs. 190.96 crore in 6,252 cases. During the year, the departments concerned accepted underassessment and other deficiencies of Rs. 94.72 crore in 2,457 cases.

(Paragraph 1.8)

II. Commercial Tax

A Review of "Computerisation of Commercial Tax Department, Chhattisgarh" revealed the following:

- There was inadequate documentation of the project.

(Paragraph 2.2.6, 2.2.7)

- There were no plans to phase out the manual system and change-over to the computerised system.

(Paragraph 2.2.8.1)

- There was incomplete information of registered dealers on the system.

(Paragraph 2.2.8.2)

- There was frequent loss of connectivity with the central server.

(Paragraph 2.2.11)

Non-levy of penalty on concealed purchase valued at Rs. 1.25 crore resulted in non-realisation of Rs. 31.59 lakh.

(Paragraph 2.3)

Acceptance of form F of doubtful authenticity resulted in short levy of tax of Rs. 33.18 lakh.

(Paragraph 2.4)

Levy of concessional rate of purchase tax without declaration on form-IV resulted in short levy of purchase tax of Rs. 24.19 lakh.

(Paragraph 2.5)

III. State Excise

A Review of “Levy and collection of excise revenue” revealed the following:

- Absence of norms for yield of alcohol from grain deprived the Government of revenue of Rs. 117.07 crore.

(Paragraph 3.2.7)

- Deficiencies in fixation of revenue targets for groups of liquor shops.

(Paragraph 3.2.8)

- Revenue loss of Rs. 8.68 crore due to non-establishment of departmental laboratory in the State.

(Paragraph 3.2.9)

- Non-levy of penalty of Rs. 5.49 crore for failure to maintain minimum stock.

(Paragraph 3.2.12)

- Non-levy of duty of Rs. 78.33 lakh on excess wastage in transportation of bottled country spirit.

(Paragraph 3.2.13)

IV. Taxes on Vehicles

In two regional transport offices, trade tax of Rs. 4.93 lakh was realised from 202 automobile dealers against Rs. 3.16 crore resulting in short realisation of trade tax of Rs. 3.11 crore.

(Paragraph 4.2)

Non-realisation of taxes from the owners of transport vehicle resulted in short levy of tax and penalty of Rs. 3.58 crore.

(Paragraph 4.3)

V. Electricity and Safety

There was non-levy of interest of Rs. 28.03 crore on belated payment of electricity duty.

(Paragraph 5.2)

Non-realisation of electricity duty of Rs. 18.62 crore from captive power producers.

(Paragraph 5.3)

Irregular allowance of transit loss resulted in non-levy of electricity duty of Rs. 11.11 crore.

(Paragraph 5.4)

VI. Land Revenue

Non-levy of cost of proceeding on defaulters resulted in short realisation of revenue of Rs. 6.35 lakh.

(Paragraph 6.2)

VII. Mining and Other Non-tax receipts

Non-remittance of royalty to Government account by the Municipal Corporation, Raipur resulted in unauthorised retention of Rs. 4.13 crore.

(Paragraph 7.2)

Non/short deduction of royalty from contractor's bill resulted in non-realisation of royalty of Rs. 2.33 crore.

(Paragraph 7.4)

There was non-recovery of water charges of Rs. 5.20 crore from the beneficiary farmers.

(Paragraph 7.6)

CHAPTER - I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Chhattisgarh during the year 2007-08, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue raised by the State Government					
	• Tax revenue	2,588.25	3,227.80	4,051.91	5,045.70	5,618.10
	• Non-tax revenue	1,124.41	1,243.93	1,229.53	1,451.34	2,020.45
	Total	3,712.66	4,471.73	5,281.44	6,497.04	7,638.55
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	1,569.70	1,876.29	2,507.82	3,198.80	4,034.98 ¹
	• Grants-in-aid	676.96	900.85	1,049.23	1,757.40	2,205.12
	Total	2,246.66	2,777.14	3,557.05	4,956.20	6,240.10
III.	Total receipts of the State (I+II)	5,959.32	7,248.87	8,838.49	11,453.24	13,878.65
IV.	Percentage of I to III	62	62	60	57	55

The above table indicates that during the year 2007-08, the revenue raised by the State Government was 55 *per cent* of the total revenue receipts (Rs. 13,878.65 crore) against 57 *per cent* in the preceding year. The balance was received from the Government of India.

¹ For details refer "tax revenue" of statement 11, detailed account of revenue by minor heads of the Finance Account of the Government of Chhattisgarh, 2007-08. The amount under the minor head 901 - share of net proceeds assigned to the State booked under the major heads 0020 - Corporation tax, 0021 - Income tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0037 - Custom, 0038 - Union excise duty, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services under 'A - tax revenue' have been excluded from the revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period from 2003-04 to 2007-08:

(Rupees in crore)							
Sl. No.	Heads of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) or decrease (-) in 2007-08 over 2006-07
1.	• Commercial tax	989.23	1,347.17	1,602.85	2,140.71	2,502.70	(+) 16.91
	• Central sales tax	309.39	326.69	486.35	702.33	521.00	(-) 25.82
2.	State excise	402.35	458.27	634.50	706.81	843.10	(+) 19.28
3.	Stamp duty and registration fee	170.87	247.77	312.80	389.51	462.72	(+) 18.80
4.	Taxes and duties on electricity	268.36	308.92	362.31	469.12	394.86	(-) 15.83
5.	Taxes on vehicles	167.07	191.79	205.97	253.05	276.94	(+) 9.44
6.	Taxes on goods and passengers	230.08	287.13	395.33	301.81	510.72	(+) 69.22
7.	Other taxes on income and expenditure, taxes on professions, trades, callings and employments including hotel receipts tax	42.96	27.13	20.65	16.23	11.54	(-) 28.90
8.	Other taxes and duties on commodities and services	4.13	4.25	4.26	5.27	6.40	(+) 21.44
9.	Land revenue	3.81	28.68	26.89	60.86	88.12	(+) 44.79
Total		2,588.25	3,227.80	4,051.91	5,045.70	5,618.10	(+) 11.34

The reasons for variation in receipts of 2007-08 from that of 2006-07, as reported by the departments, are mentioned below:

State excise: The increase (19.28 *per cent*) was due to increase in duty of country spirit and foreign liquor and increase in number of cable consumers and cinema halls.

Taxes and duties on electricity: The decrease (15.83 *per cent*) was attributed to the delayed payment of electricity duty and development cess by the State Electricity Board. The Government has initiated action to recover the dues.

Taxes on vehicles: The increase (9.44 *per cent*) was due to increase in registration of new vehicles and strict enforcement of recovery.

The other departments did not inform (November 2008) the reasons for variation, despite being requested (August 2008).

1.1.3 The following table presents the details of major non-tax revenue raised by the State during the period from 2003-04 to 2007-08.

(Rupees in crore)

Sl. No.	Heads of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	Non-ferrous mining and metallurgical industries	629.68	679.83	721.12	813.42	1,031.55	(+) 26.82
2.	Forestry and wild life	140.94	159.85	203.17	205.79	258.07	(+) 25.40
3.	Interest receipts	122.46	101.26	97.67	186.04	205.61	(+) 10.52
4.	Major and medium irrigation	44.85	67.26	38.98	104.96	97.62	(-) 6.99
5.	Other non-tax receipts	86.38	69.23	106.41	74.32	96.44	(+) 29.76
6.	Medical and public health	2.43	3.21	3.07	19.33	7.62	(-) 60.58
7.	Other administrative services	10.70	12.30	14.23	13.10	10.59	(-) 19.16
8.	Police	6.80	3.74	10.21	12.11	12.31	(+) 1.65
9.	Public works	8.56	5.63	13.94	9.31	11.67	(+) 25.34
10.	Miscellaneous general services	67.47	37.45	14.91	8.62	281.84	(+) 3,169.61
11.	Co-operation	4.14	4.17	5.82	4.34	7.13	(+) 64.29
12.	Power	NA	100.00	0.00	0.00	0.00	0.00
Total		1,124.41	1,243.93	1,229.53	1,451.34	2,020.45	(+) 39.21

The variation in receipt between 2007-08 and 2006-07 under 'miscellaneous general services' was primarily due to waiver of Government of India debt which was accounted for in this head. In remaining cases, reasons for variation have not been received (November 2008), though called for (August 2008).

1.2 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of the principal heads of tax and non-tax revenue are mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Budget estimates	Actuals	Variations excess (+) or shortfall (-)	Percentage variation
A. Tax revenue					
1.	Taxes on sales, trade etc.	3,200.00	3,023.70	(-) 176.30	(-) 5.51
2.	State excise	840.00	843.10	(+) 3.10	(+) 0.37
3.	Taxes and duties on electricity	481.10	394.86	(-) 86.24	(-) 17.93
4.	Stamp duty and registration fee	471.47	462.72	(-) 8.75	(-) 1.86
5.	Taxes on goods and passengers	401.00	510.72	(+) 109.72	(+) 27.36
6.	Taxes on vehicles	297.00	276.94	(-) 20.06	(-) 6.75
7.	Land revenue	96.76	88.12	(-) 8.64	(-) 8.93
8.	Other taxes on income and expenditure	19.83	10.85	(-) 8.98	(-) 45.28
9.	Other taxes and duties on commodities and services	5.64	6.40	(+) 0.76	(+) 13.48
10.	Hotel receipts tax	0.60	0.69	(+) 0.09	(+) 15.00
B. Non-tax revenue					
1.	Non-ferrous mining and metallurgical industries	983.52	1,031.55	(+) 48.03	(+) 4.88
2.	Forestry and wildlife	250.00	258.07	(+) 8.07	(+) 3.23
3.	Interest receipts	143.90	205.61	(+) 61.71	(+) 42.88
4.	Major and medium irrigation	95.13	97.62	(+) 2.49	(+) 2.62
5.	Medical and public health	15.78	7.62	(-) 8.16	(-) 51.71
6.	Other administrative services	15.73	10.59	(-) 5.14	(-) 32.68
7.	Police	6.90	12.31	(+) 5.41	(+) 78.41
8.	Public Works Department	12.54	11.67	(-) 0.87	(-) 6.94
9.	Water supply and sanitation	3.06	4.47	(+) 1.41	(+) 46.08
10.	Others (Jail)	1.81	1.39	(-) 0.42	(-) 23.20

The departments concerned did not inform (November 2008) the reasons for variation, despite being requested (August 2008).

1.3 Cost of collection

The gross collection of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 are mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2006-07
1.	Taxes on sales, trade etc.	2005-06	2,089.20	12.61	0.60	0.82
		2006-07	2,843.04	12.46	0.44	
		2007-08	3,023.70	14.24	0.47	
2.	Taxes on vehicles	2005-06	205.97	3.81	1.85	2.47
		2006-07	253.05	4.09	1.62	
		2007-08	276.94	5.30	1.91	
3.	State excise	2005-06	634.50	23.55	3.71	3.30
		2006-07	706.81	17.94	2.54	
		2007-08	843.10	19.75	2.34	
4.	Stamp duty and registration fee	2005-06	312.80	8.61	2.75	2.33
		2006-07	389.51	10.86	2.79	
		2007-08	462.72	10.83	2.34	

The cost of collection is marginally higher in respect of stamp duty and registration fee but has been reduced as compared to previous year.

1.4 Analysis of arrears of revenue

The arrears of some principal heads of revenue as on 31 March 2008 as reported by the departments amounted to Rs. 381.68 crore of which Rs. 144.43 crore was outstanding for more than five years as mentioned below:

(Rupees in crore)

Sl. No.	Heads of revenue	Amount outstanding as on 31 March 2008	Amount outstanding for more than 5 years as on 31 March 2008	Remarks
1.	Taxes on sales, trade etc.	183.29	113.05	Action to recover arrear by auction of confiscated property.
2.	Taxes on vehicles	7.27	1.47	Out of Rs. 7.27 crore, Rs. 1.25 crore has been recovered in April 2008. Efforts are on to recover the balance.
3.	State excise	20.35	19.45	Efforts are on to effect recovery.
4.	Stamp duty and registration fee	3.06	0.34	- do -
5.	Taxes and duties on electricity	47.20	2.79	- do -

6.	Geology and mining	1.90	1.67	Efforts are on to effect recovery.
7.	Irrigation	118.61	5.66	- do -
Total		381.68	144.43	

1.5 Arrears in assessments

The number of pending cases at the beginning of the year 2007-08, becoming due during the year, disposed during the year and pending at the end of the year 2007-08 as furnished by the departments are mentioned below:

Name of tax	Opening balance (2007-08)	Addition during the year	Total number of assessment cases due	Cases disposed during the year	Cases pending at the end of the year	Percentage of clearance (Column 5 to 4)
1	2	3	4	5	6	7
Comm- ercial tax	41,524	43,244	84,768	54,713	30,055	64.54
Professi- onal tax	10,088	18,069	28,157	21,905	6,252	77.80
Entry tax	48,652	25,080	73,732	32,014	41,718	43.42
Luxury tax	35	92	127	96	31	75.59
Tax on works contract	22	47	69	48	21	69.57
Total	1,00,321	86,532	1,86,853	1,08,776	78,077	58.21

Thus, 41.79 *per cent* of the assessment cases were pending at the end of the year for which the Government should initiate action for expeditious disposal.

1.6 Evasion of tax

The details of cases of evasion of tax detected by the departments, cases finalised and the demand for additional tax raised during 2007-08, as reported by the departments, are mentioned below:

Sl. No.	Name of tax/duty	Cases pending as on 31 March 2007	Cases detected during 2007-08	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2008
					No. of cases	Amount of demand (Rupees in crore)	
1.	Commercial tax	4 ²	14	18	1	9.93	17
2.	State excise	15	--	15	--	--	15

Thus, during 2007-08, the State Excise Department could not finalise any of the 15 cases pending settlement for more than three years and the Commercial Tax Department could finalise only one out of 18 cases.

1.7 Refunds

The number of refund cases pending at the beginning of the year 2007-08, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2007-08, as reported by the departments, are mentioned below:

(Rupees in crore)

Name of the department	Opening balance		Claims received		Refunds allowed		Closing balance	
	No. of cases ³	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Commercial tax	301	316.92	3,926	2,894.87	4,037	2,850.89	190	360.90
State excise	3	1.77	5	2.92	5	2.92	3	1.77
Total	304	318.69	3,931	2,897.79	4,042	2,853.81	193	362.67

1.8 Results of audit

Test check of the records of commercial tax, land revenue, state excise, motor vehicles tax, stamps and registration fee and other non-tax receipts conducted during the year 2007-08 revealed underassessment, short levy and loss of revenue amounting to Rs. 190.96 crore in 6,252 cases. The departments concerned accepted underassessment and other deficiencies of Rs. 94.72 crore in 2,457 cases which had been pointed out in audit during the year 2007-08.

This report contains 21 paragraphs including two reviews, pointing out non/short levy of taxes, duties, interest and penalties etc., involving Rs. 92.87 crore. The Government/departments accepted audit

² The variations between closing balance for the year 2006-07 and opening balance for the year 2007-08 has been reconciled and the department has submitted revised figure through their letters dated 19.9.08 and 24.9.08.

³ The variations between the closing balance of 2006-07 and opening balance of 2007-08 has been reconciled and changed accordingly on receipt of revised figures from the respective departments.

observations involving Rs. 52.88 crore of which Rs. 74.62 lakh had been recovered upto March 2008. Audit observations with a total revenue effect of Rs. 39.98 crore have not been accepted by the departments, but their contentions have been appropriately commented upon in the relevant paragraphs.

1.9 Outstanding inspection reports and audit observations- lack of responsiveness and erosion of accountability

Audit observations on underassessments, short determination/realisation of taxes, duties, fees etc., and defects in the maintenance of initial records, which are not settled on the spot, are communicated to the heads of the departments through inspection reports (IR). Important irregularities are also reported to the Government/departments through IRs by the office of the Accountant General to which replies are required to be furnished by them within one month.

The number of IRs and audit observations relating to revenue receipts issued upto 31 December 2007 which were pending with the departments as on 30 June 2008, along with corresponding figures for the preceding two years, is mentioned below:

Sl. No.	Particulars	Position as on 30 June		
		2006	2007	2008
1.	Number of IRs pending settlement	1,526	1,587	1,875
2.	Number of outstanding audit observations	5,819	6,113	7,059
3.	Amount of revenue involved (Rs. in crore)	1,555.31	1,693.28	2,711.75

The department wise details of the IRs and audit observations outstanding as on 30 June 2008 are mentioned below:

Sl. No.	Department	No. of outstanding		Amount (Rupees in crore)	Earliest year to which the IR relates
		IRs	Audit observations		
1.	Commercial tax	298	1,947	260.12	1992-93
2.	Stamp duty and registration	225	559	21.82	1990-91
3.	Land revenue	461	1,223	482.53	1994-95
4.	Transport	83	623	63.81	1994-95
5.	State excise	102	331	204.34	1994-95
6.	Geology and mining	101	354	483.81	1994-95
7.	Electricity duty	7	23	66.52	1997-98
8.	Entertainment tax	55	68	1.60	1994-95

9.	Other tax departments	277	1,021	239.19	1994-95
10.	Forest (Revenue)	266	910	888.01	1979-80
Total		1,875	7,059	2,711.75	

1.10 Departmental audit committee meetings

The process of settlement of the outstanding audit observations contained in the IRs is to be expedited through departmental audit committees constituted by the Government. These committees are chaired by the Secretary of the department concerned and attended by the officers concerned of the State Government and of the office of the Accountant General (Audit). The meetings for reviewing and monitoring the progress of settlement of the audit observations/paragraphs are required to be held on a regular basis.

During the year 2007-08, no audit committee meeting was held. The Government should ensure holding of periodical meetings of these committees for ensuring effective action on audit observations leading to their settlement.

1.11 Response of the departments to draft audit paragraphs

As per standing instructions of the Finance Department, all departments are to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within three weeks of their receipt. The draft paragraphs are forwarded to the Secretaries of the department concerned through demi-official letters, requesting them to send their response within three weeks. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Draft paragraphs proposed to be included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2008 were forwarded to the Secretaries of the respective departments between March 2008 and August 2008. Out of 19 draft paragraphs, the departments have accepted the audit observations in eight paragraphs.

1.12 Follow-up of Audit Reports - summarised position

According to the instructions issued by the Finance Department, all the departments were required to furnish explanatory memoranda, vetted by audit, to the Chhattisgarh Vidhan Sabha Secretariat, in respect of paragraphs included in the Audit Reports, within three months of their being laid on the table of the House.

As on March 2008, five departments had not furnished the departmental notes in respect of 20 paragraphs included in the Audit Reports for the years between 2001-02 and 2005-06 for vetting. The delay ranged from 9 to 46 months as mentioned below:

Sl. No.	Name of the department	Year of report	Date of presentation to the legislature	Last date by which departmental notes were due	No. of paragraphs for which departmental notes were due	Delay in months at the end of March 2008
1.	Commercial tax	2005-06	15-03-07	15-06-07	14	10
2.	Land revenue	2001-02	26-02-04	26-05-04	1	46
		2004-05	23-03-06	23-06-06	1	21
3.	Forest receipt	2005-06	15-03-07	15-06-07	1	10
4.	Geology and Mining	2005-06	15-03-07	15-06-07	1	10
5.	Public works department	2002-03	30-11-04	02-03-05	2	36
Total					20	

With a view to ensure accountability of the executive, the Public Accounts Committee (PAC) lays down in each case, the period within which action taken notes (ATN) on its recommendations should be sent. The PAC discussed 136 selected paragraphs pertaining to the Audit Report for the years 1998-99 to 2005-06 and gave its recommendations on 103 paragraphs. However, ATNs have not been received in respect of 92 recommendations of the PAC from the departments concerned as mentioned below:

Year	Name of the department						Total
	Commercial tax/ State excise	Co-operative	Urban development/ Registration	Motor vehicle/ Land revenue	Water resources/ Mining	Food and civil supplies/ Public works department	
1998-99	--/5	1	1/8	4/--	2/1	3/1	26
1999-2000	--/--	--	--/4	--/--	--/8	--/1	13
2000-01	--/1	--	--/7	16/20	2/4	--/--	50
2001-02	--/--	--	--/--	--/--	--/1	1/--	2
2002-03	--/--	--	--/--	--/--	--/--	1/--	1
Total	--/6	1	1/19	20/20	4/14	5/2	92

1.13 Recovery of revenue in accepted cases

During the years between 2003-04 and 2006-07, the departments/ Government accepted observations of the Audit Reports involving Rs. 18.59 crore of which Rs. 5.10 crore only had been recovered till March 2008 as mentioned below:

(Rupees in crore)

Sl. No.	Year of the Audit Report	Total money value	Amount accepted	Recovery made upto March 2008
1.	2003-04	46.72	12.40	1.26
2.	2004-05	46.00	1.05	1.43
3.	2005-06	253.10	2.22	1.82
4.	2006-07	15.99	2.92	0.59
Total		361.81	18.59	5.10

CHAPTER - II: COMMERCIAL TAX

2.1 Results of audit

Test check of the records of the Commercial Tax Department conducted during the year 2007-08 revealed underassessment, non/short levy of tax/interest/penalty, application of incorrect rate of tax etc. amounting to Rs. 2.59 crore in 37 cases, which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	“Computerisation of the Commercial Tax Department” – A review	1	Nil
2.	Incorrect grant of exemption/deduction/set-off	18	1.12
3.	Non/short levy of tax	3	0.50
4.	Incorrect determination of taxable turnover	2	0.27
5.	Application of incorrect rate of tax	3	0.05
6.	Other irregularities	10	0.65
Total		37	2.59

During the year 2007-08, the department accepted underassessment of tax of Rs. 62 lakh in 16 cases.

An information technology review of “Computerisation of the Commercial Tax Department” and a few illustrative cases involving revenue of Rs. 73.43 lakh highlighting important audit findings are mentioned in the following paragraphs.

2.2 Computerisation of Commercial Tax Department

Highlights

- There was inadequate documentation of the project.
(Paragraph 2.2.6, 2.2.7)
- There were no plans to phase out the manual system and change-over to the computerised system.
(Paragraph 2.2.8.1)
- There was incomplete information of registered dealers on the system.
(Paragraph 2.2.8.2)
- There was frequent loss of connectivity with the central server.
(Paragraph 2.2.11)

2.2.1 Introduction

The Chhattisgarh Commercial Tax Department is responsible for levy and collection of tax under value added tax (VAT), central sales tax (CST), entry tax (ET), professional tax (PT) and luxury tax (LT) in the state. A project for the computerisation of Commercial Tax Department was initiated in Madhya Pradesh (MP) in the year 2000 which included the districts of the present State of Chhattisgarh. After the State's formation in November 2000, this work was awarded to Computer Maintenance Corporation Ltd. (CMC) in the year 2003 which developed an application software called the Chhattisgarh Commercial Tax Software (CGCOMTAX) in June 2005.

The total estimated cost of the project was Rs. 12.67 crore out of which Rs. 1.50 crore was financed from the Eleventh Finance Commission in 2002-03. As per the records produced to audit, the total expenditure on computerisation including hardware, accessories, software and handholding support by CMC amounted to Rs. 8.64 crore.

The software CGCOMTAX is based on three-tier architecture i.e., database server-Sun Solaris, application server-Windows 2003 and report server-Windows XP. It is a web-enabled application with Java Server pages in the front end and Oracle RDBMS at the back end. All the departmental offices have their own local area network (LAN) and are connected with the central server in the Commissioner's office, of a wide area network (WAN) through Bharat Sanchar Nigam Limited (BSNL) leased lines (64 Kbps).

The CGCOMTAX has 11 modules which are Dealer Information System (DIS), Returns Processing System (RPS), Tax Accounting System (TAS), Industrial Exemption System (IES), Professional Tax System (PTS), Luxury Tax System (LTS), Arrears Recovery System (ARS) and Law and Judicial System (LJS) which captures original data, Personal Information System (PIS) which relates to administrative work of the department, Dealer Assessment System (DAS) and Management Information System (MIS) which generates various reports from the data available in other modules.

2.2.2 Organisational set up

The department is under the administrative control of the Finance Department. The Commissioner of Commercial Tax (Commissioner) is the head of the department assisted by five Deputy Commissioners. There are three divisions and 19 circles in the State headed by Deputy Commissioner at the divisions and commercial tax officers at the circle level. The department operates five check posts.

2.2.3 Audit objectives

The audit was conducted to evaluate:

- whether project was implemented in a planned manner;
- the main constraints, if any, in implementing the project;
- the extent of utilisation of the features of the application software;
- whether security and backup issues are adequately addressed; and
- change management is controlled and well documented.

2.2.4 Audit criteria

The application software developed and implemented in the head office, divisions and circles was evaluated with reference to the Commercial Tax Department manual. Planning of computerisation, methodology of development of the application software, data management and monitoring was examined with reference to practices of information technology governance under Control Objectives for related Information Technology (CoBIT) framework.

2.2.5 Scope of audit and methodology

The audit of CGCOMTAX was conducted in the Commissioner's office, three divisional offices, 10 circles and two check posts¹. The files relating to the project were examined and the data from various modules was retrieved and scrutinised using structured query language (SQL). An exit conference was held on 27 November 2008 with the Commissioner, Commercial Tax and other officials to discuss the findings in the review. It was stated by the department that the findings in the review would be utilised in switching over fully to the computerised system.

2.2.6 Project management structure

The main objectives of the project are to improve the efficiency of the working system of the department and to discontinue the maintenance of registers. The perceived benefits of the computerisation included *inter alia*

1 Three divisions Bilaspur, Durg and Raipur
Ten circles: Ambikapur circle, Bilaspur circle - I, Bilaspur circle - II, Durg circle - I, Durg circle - II, Durg circle - III, Jagdalpur circle, Korba circle, Raipur circle - I and Raipur circle - II.
Bhagat Devri and Chichola check posts.

- to have a directory of registered dealers containing accurate dealer information;
- to enable the follow up of returns by generating list of defaulters and issue of advance tax notice/show cause notice;
- to automate segregation of challans circle wise/dealer wise/act wise and ensure their veracity by reconciling with bank details;
- to be able to have faster and more accurate access to relevant dealer details required at the time of assessment;
- to monitor the progress of recovery and keeping track of the dues of the dealers;
- to monitor appeals and court cases; and
- to provide efficient and accurate computerised control for Luxury Tax Management and Professional Tax system.

The department engaged CMC in September 2003, who was doing this computerisation in undivided MP since March 2000. It appointed a Project Manager and constituted a core team in October 2003 for facilitating and coordinating the computerisation as an interface with the CMC project team. The time schedule provided for delivery of source code and closure by May 2005. The department could not produce any implementation plan or schedule for complete change-over from the manual to the computerised system.

Audit findings

2.2.7 Application development, testing and user acceptance

The feasibility study of the project and the user requirements were not available on record. The department stated that CMC was given the user requirements in undivided MP. However it was unable to produce a copy to audit.

CMC demonstrated all the modules of CGCOMTAX in April 2004 and the department gave the acceptance for the software in June 2005. However, no related documents were produced to audit to verify the manner of testing, test results, consequent modifications, degree of user involvement and acceptance reports of various groups. It could not be ascertained whether the system designed by CMC met all the user requirements. It was evident that the documentation for various stages of the application development and testing was missing and it was difficult to ascertain whether due procedures were followed.

2.2.8 Implementation

The department did not produce any documented implementation plan to audit. Some of the deficiencies in implementation are reflected in the following paragraphs.

2.2.8.1 No plans to change-over to the computerised system

The department did not furnish any documented plan to phase out the manual system and change-over to the computerised system. It was observed that after giving acceptance certificate for the software in June 2005, the system is running in parallel with the manual system for almost three years (March 2008).

Therefore, the objectives of discontinuance of manual registers and improving the efficiency of the working system of the department were not achieved. Some instances are given below showing important items of work that continue to be done manually and are not updated in the system.

2.2.8.2 Dealer information system module

- The data pertaining to registered dealers is available in the Dealer Information System module (DIS). Scrutiny of the database and manual records showed that the total number of registered dealers in the system was less than the actual dealers as per the manual records in all three test checked divisions. It was observed that discrepancies had not been analysed to ascertain reasons. During the exit conference, it was intimated that discrepancies between manual records and the system will be reconciled in the next three months.
- During scrutiny it was found that for new registration applications, the circle offices were generating Tax payer's Identification Number (TIN) from the DIS after entering minimal details. The computer-generated TIN and other details were thereafter entered in the registers and the registration certificates were issued manually to the dealers. Subsequently details were entered in DIS from the manual records. Similarly, the cancellation of registration certificates were also being done manually but were not updated in the DIS module in many cases.
- DIS module provides for accounting of the declaration forms² received from Commissioner's office. Scrutiny of the data in Raipur circle - I, Durg circle - I & II, Ambikapur and Korba circles revealed that the number of forms issued to dealers was more than the numbers requisitioned. It was verified that these errors occurred due to incorrect data entry in the module. The manual records were correct but the data had not been corrected as there was no reconciliation.

Ambikapur, Durg circle-I & II and Korba circles confirmed that this was due to erroneous data entry by the data entry operators (DEO). It was evident that the circle officers had not instituted a system to verify the data entered by DEOs from the manual records. Consequently, the envisaged functionality of accurate dealer information to be fulfilled by this module was not fully achieved.

2.2.8.3 Returns processing system module

- The monthly, quarterly, annual returns and revised returns of dealers are entered in the RPS module. The department had set a deadline for entering all returns for the year 2002-03 to 2004-05 in the RPS module

² Forms used by dealers to facilitate intra-state and inter-state movement of goods.

by 31 March 2006. Due to shortage of staff, the department had outsourced the process of data entry from August 2005 to September 2007. However, the data entry of returns could not be completed despite engaging additional manpower and the module continues to have incomplete data. The RPS module has a provision for identifying dealers who have not submitted their periodical returns and generating advance tax notices (ATN). It was observed in test-checked circles that the ATNs were issued following the prevailing manual procedure. The CTOs of Ambikapur and Jagdalpur circle stated in their reply that ATN is being issued to defaulter dealers manually as per the dealer collection register in which the tax amount of the existing dealers for the previous year is available. The reply indicated that in order to make the module fully functional, it was necessary to enter the tax paid in previous years which was not available as the data entry of returns of earlier years was incomplete.

- The gross turnover and the net taxable turnover³ are entered in the RPS module. During the scrutiny of the RPS module, it was found that in 1,723 out of 28,832 records in the RPS module, the taxable turnover exceeded the gross turnover, which was not possible. Ambikapur, Durg circle-II and Jagdalpur circles in their reply stated that this occurred due to wrong entries in the system by the DEOs.
- It was observed that due to the backlog in data entry from manual records, data in the RPS module remained incomplete. Thus, the reports generated from RPS data through MIS reports like comparative revenue under VAT, CST, ET, PT and LT, month wise and Act wise revenue, statistics of returns process, monthly revenue review report would also be incomplete and could not be used for monitoring. Consequently, the envisaged functionality of follow up of returns by generating list of defaulters and issue of ATN/show cause notice to be fulfilled by this module was not fully achieved.
- The RPS module provides for entry of details of challans which are attached with the return of a dealer as proof of payment of tax. The TAS module contains the provision of capturing the actual receipts of revenue from the bank scrolls. The system provided for generating a mismatch report in the MIS module which would assist in the reconciliation of challans data entered in the TAS and RPS modules. During scrutiny of records/data entry in Ambikapur and Raipur - II circles, it was observed that data entry was being carried out in both the modules and there were several unreconciled discrepancies in the challan details from the two sources. The CTO, Ambikapur stated that the reconciliation was being done manually. It was evident that the corrections were not being carried out on the system which therefore did not have updated and reconciled challan information.

³

Gross turnover minus deductions.

2.2.8.4 Non-operational modules in the software

It was observed that in all the three divisions, the ARS, LTS, IES and LJS modules did not contain any data and were not operational. Consequently, the envisaged functionality of tracking and recovery of arrears, monitoring of appeals, court cases, LT and PT to be fulfilled by these modules was not achieved.

It was evident that the modules had incomplete information and the system generated reports would therefore also be incomplete and could not be used for monitoring. Thus, the envisaged objectives of improving the working system of the department and discontinuance of manual registers were not achieved. The department immediately needs to formulate steps to set up target dates for fully operationalising all modules to achieve the envisaged objectives. During the exit conference, the department intimated that discrepancies would be reconciled and connectivity problems would be addressed. The problems of implementation were attributed to shortage of technical staff and it was informed that additional posts had been sanctioned and it was planned to change-over fully to the computerised system within one year.

2.2.9 Logical access control

Logical access controls protect an IT system from unauthorised access and malicious codes such as viruses and worms. It was observed that the department did not have a documented password policy and no written instructions were issued regarding regular change of passwords. Password control procedures like assigning alpha numeric passwords, minimum number of characters for password, restriction on number of unsuccessful login attempts and forced periodic password changes were not incorporated in the application. There was no documented approval of access profiles from the department authorising various levels of employees to access different modules and screens. There was also no evidence of review of system logs to detect attempts at unauthorised access or unexpected events.

The purchase orders for the personal computers (PC) provided for anti-virus software but had not been installed in the test checked circles, Commissioner's and DC's office.

In the absence of adequate logical access controls, the system was prone to risk of intrusion and data corruption. These factors would become more critical once the department shifts fully to the computerised system. It is recommended that the department should define and approve access profiles, strengthen password management and load anti-virus software in all the PCs. It was intimated in the exit conference that anti-virus software would be installed and password policy implemented within three months.

2.2.10 Hardware procurement

For the implementation of the software, the department procured 348 stand alone PCs, 12 HP make low end servers, one Sun Solaris server, CISCO networking items and Oracle RDBMS licenses. It was observed that payments had been made in contravention of the terms of the supply order and without

verifying actual delivery. Stock registers for the computer hardware were not available and the department had suspended the then storekeeper and instituted a departmental enquiry.

After the expiry of the warranty for the hardware in April 2007, the department had not concluded any annual maintenance contract (AMC). It was observed that many of the PCs were repaired locally.

It was observed that the department had not ascertained the hardware actually installed in various offices for the project even after detecting gross irregularities in the procurement process. It is, therefore, recommended that it should obtain this information from all the offices where hardware was installed and also conclude AMC for the available hardware. During the exit conference, the department intimated that information had been collected on the hardware available in all subordinate offices and AMC would be concluded within three months. In view of the irregularities detected by the department in purchases, the information collected on hardware was to be fully verified against purchase orders and related documents.

2.2.11 Networking

All the divisions and circles are connected to the central server located in the Commissioner's office, Raipur through WAN (provided by BSNL). In the test checked circles namely Ambikapur, Durg, Jagdalpur and Korba, the respective CTOs intimated that there was frequent loss of connectivity with the central server. Jagdalpur circle was the worst affected where there was no connectivity from November 2007 to June 2008 forcing the staff to continue the work manually. In the absence of connectivity, the system could not be fully functional. It was intimated in the exit conference that the connectivity was being improved with the assistance of National Informatics Centre (NIC).

2.2.12 Backup process

Daily physical and logical backup of data was being taken. While there was a procedure for weekly backup on DAT cartridges, there was no record of the instances when backup was actually taken and whether the backups were tested through actual restoring. The backup cartridges were stored in the same building i.e. Commissioner's office where the server is located.

It is recommended that the backup procedures be reviewed considering storage of the first copy of the backup cartridges in strong room/steel cupboards and storage of second copy and original system software compact disks (CD) in another location.

A system of regular testing of the restorability of the backup data and log of cartridge backups may also be maintained. During the exit conference, the department intimated that documented backup procedures including off-site storage of backups would be implemented within three months.

2.2.13 Change management

The department did not keep any record of change requirements, authorised change requests and execution of changes. It was, therefore, not possible to ascertain what changes had taken place in CGCOMTAX. It was intimated in

exit conference that in view of audit recommendations, a procedure has been prescribed for authorisation and documentation of changes.

2.2.14 Inadequate coverage of check posts

The CGCOMTAX did not have any separate module designed for check posts. However, PCs were provided for all the check posts in the initial supply order for 338 PCs. It was observed during test check that Bhagat Devri and Chichola check posts had three and nine PCs respectively. They were using the dealers registration details obtained on CDs at regular intervals from the Commissioner's office. A link to the central server would enable the check posts to verify from the DIS module, the details of declaration forms presented by vehicles crossing the check posts. It is, therefore, recommended that connectivity may be given to the check posts and suitable module incorporated in the software for the use of check posts. It was intimated in the exit conference that establishment of integrated check posts was under consideration of the Government.

2.2.15 Conclusion

Though the department implemented CGCOMTAX in the year 2005 and invested substantial resources on hardware, software and additional outsourced manpower, the work continues to be done manually and the computerised system has become an incomplete archive of information. The main constraints comprised absence of a time schedule for change-over, disruptions in connectivity and manpower constraints. The main objectives of increasing efficiency through a computerised system and discontinuing the maintenance of registers have not yet been achieved.

2.2.16 Recommendations

- The department should prepare a time bound implementation plan to shift completely to computerised system with a target date for complete change-over for each module;
- the implementation plan should provide for adequate manpower;
- the connectivity to all circles and other offices, especially those in the remote areas, may be reviewed to ensure uninterrupted access to the central server;
- authorised change requests and action taken may be documented;
- suitable module may be incorporated for check posts;
- backup procedures and access controls may be strengthened; and
- the department should obtain hardware installation information from all the offices and also conclude AMC for the available hardware.

2.3 Non-levy of penalty

According to Section 69 of the Chhattisgarh Commercial Tax (CGCT) Act⁴ 1994, if the Commissioner or the appellate or the revisional authority during any proceeding is satisfied that the dealer has concealed his turnover or the aggregate amount of purchase in respect of any goods or has furnished false particulars, the authority concerned may initiate proceedings for imposing penalty. Further, as per Section 69(3), if the total tax shown as payable according to the returns and paid by a dealer for any period is less than 80 *per cent* of the total tax assessed, such dealer shall be deemed to have concealed his turnover or aggregate of his purchase price and is liable to pay penalty upto five times but not less than three times of the tax evaded. In all such cases the Assistant Commissioner, Commercial Tax (ACCT) has been delegated with the power to levy penalty.

Test check of the records of the ACCT, Raipur in February 2007 revealed that while assessing a dealer engaged in sale of vegetable oil in February 2004 for the period April 2000 to March 2001, the assessing officer (AO) detected that the dealer had concealed purchase of tea from Kunnoor valued at Rs. 1.25 crore resulting in understatement of turnover. Although tax of Rs. 10.53 lakh was imposed on the sale value of the concealed turnover, minimum penalty of Rs. 31.59 lakh leviable for concealment of turnover was not levied. This resulted in non-levy of penalty of Rs. 31.59 lakh.

After the case was pointed out, the AO replied (February 2007) that penalty order had been passed. A report on recovery has not been received (November 2008).

The matter was reported to the Commissioner, Commercial Tax and the Government in May 2007; their reply has not been received (November 2008).

2.4 Non-levy of tax by accepting form F of doubtful authenticity

Under Section 79(1)(i) of the CGCT Act, tax on the sale of goods shall not be imposed where such sale takes place outside the State of Chhattisgarh provided the sale is supported by form F issued by the dealer to whom goods are dispatched for sale.

Further, as per Section 6-A(1) of Central Sales Tax (CST) Act, 1956, where any dealer claims that he is not liable to pay tax in respect of goods on the ground that the movement of such goods from one State to another was occasioned by reason of transfer of such goods by him to any other place of his business or to his agent or principal, as the case may be, and not by reason of sale, the burden of proving the movement of those goods shall be on that dealer and he may furnish to the assessing authority, a declaration, duly filled and signed by his agent or principal, as the case may be, along with the evidence of dispatch of such goods.

Test check of the records of the ACCT, Raipur in November and December 2006 revealed that two dealers engaged in sale of edible oil assessed between

⁴ The Government of Chhattisgarh adopted the Madhya Pradesh (MP) Commercial Tax Act, 1994.

January and November 2004 for the period April 2000 to March 2002, dispatched edible oil valued at Rs. 5.60 crore to the agents located outside Chhattisgarh for sale. No tax was levied on the sale as the department treated it as out of State sale on the basis of form F issued by the agents. Scrutiny of the form F revealed that freight for sending the goods from Raipur to Mizoram, Guwahati and Kolkata ranged from Rs. 4,000 to Rs. 9,300 for 600 containers of edible oil i.e. nine metric tonne. These freight rates were abnormally low as in other cases, freight for shorter distance (Raipur to Kolkata) was in the range of Rs.12,000 to Rs. 14,200 for the same quantity during the same period.

After the cases were pointed out, the AO replied (November and December 2006) that deduction on sales out of State was allowed on the basis of form F submitted by the dealer and action would be taken after verification of inter-State sale from the State concerned. However, for the case pertaining to 2001-02 of the first dealer, the AO stated that a letter had been issued to Dy. Commissioner, Inter-State Verification Wing, West Bengal, Kolkata in March 2005 for verification of facts and action would be taken after verification from the State concerned. The reply did not explain why the department accepted the form F which were prima facie of doubtful authenticity due to the abnormally low freight rates. Subsequently, audit carried out a verification of three consignments sent by the first dealer using three tankers⁵ bearing registration numbers of Orissa State. These had purportedly transported oil worth Rs. 12.28 lakh from Raipur to Orissa and Guwahati during the period June to August 2001. It was ascertained from the Transport Department, Orissa that the registration numbers were not of tankers but were of two wheelers. This confirmed that fraudulent documents were used to evade tax in these consignments. Therefore, all the other consignments purportedly sent by the two dealers with similar abnormal low freight rates are also doubtful. The department may therefore investigate all the consignments and verify all the form F used by these dealers to ascertain the extent of false form F used resulting in tax evasion which could extend upto Rs. 33.18 lakh.

The matter was reported to the Commissioner and the Government in April 2007; their reply has not been received (November 2008).

2.5 Short levy of purchase tax

Under the Tax Exemption Scheme of 1994 notified in October 1994, new industrial exempted units are eligible to purchase raw material from registered dealers of Chhattisgarh at concessional rates, subject to the condition that a declaration in form IV⁶ as laid down in 10(b) of para 12 of the scheme is submitted by the dealers. The concessional rate of purchase tax is two *per cent* on iron and steel and four *per cent* on other goods.

Test check of the records of the ACCT, Raipur in December 2006 revealed that a dealer engaged in the manufacture and sale of angle channels and cold twisted (CTD) bars assessed in June 2003 for the period April 2000 to March

⁵ Consignments were stated to be sent to M/s Bharat Store, Bolangir (Orissa) by tanker Nos. ORR-1365 and ORM-3517 on 28 August 2001 and 13 June 2001 and M/s Krishna Agencies (Guwahati) by tanker No. ORH-4732 on 31 August 2001.

⁶ Statement of purchases, product, sales and consumption of goods.

2001 was allowed concessional rate of purchase tax on purchase of iron and steel worth Rs. 11.84 crore and furnace oil worth Rs. 12.59 lakh. However, the requisite declaration in form IV was not submitted and thus the dealer should have been taxed at full rate. This resulted in short levy of tax amounting to Rs. 24.19 lakh⁷.

The matter was reported to the Commissioner and the Government in April 2007; their reply has not been received (November 2008).

2.6 Non-levy of entry tax

According to the notifications dated 16 June 1998 and 13 April 2000 issued by the Commercial Tax Department, iron and steel as specified in (ii) & (xvi) of clause (iv) under Section 14 of the CST Act is exempt from levy of entry tax provided the material purchased is for use as raw material in manufacturing and has been purchased from a registered dealer. Otherwise, the dealer is liable to pay entry tax at one and half *per cent* on the value of material brought into one local area from other local area.

Test check of the records of the ACCT, Raipur in December 2006 revealed that a dealer engaged in the manufacture and sale of rollable products, assessed in June 2003 for the period April 2000 to March 2001, purchased iron and steel amounting to Rs. 19.88 crore from Bhilai and brought them to Raipur. Out of the purchase of Rs. 19.88 crore, iron and steel worth Rs. 6.02 crore was sold without using it in the process of manufacture. As the conditions of notifications were not fulfilled, the assessee was liable to pay entry tax at the rate of one and half *per cent* on iron and steel valued at Rs. 6.02 crore. This resulted in non-levy of entry tax of Rs. 9.03 lakh.

The matter was reported to the Commissioner and the Government in April 2007; their reply has not been received (November 2008).

2.7 Irregular grant of set-off

According to Section 13 (1) (a) of the CGCT Act, a manufacturer is eligible for set-off from the tax payable on sale of finished goods within the State upto the extent of the tax applicable on purchase of that particular goods. However, if finished products are transferred to any branch outside the State, then the dealer is not eligible for set-off even if the branch is located outside the State and has sold such goods in the course of export.

Test check of the records of the Commissioner, Commercial Tax (technical wing), Raipur in December 2006 revealed that for a dealer engaged in generation of electricity, manufacture and sale of iron and steel products and sale of coal assessed for the period from April 2002 to March 2003 in November 2005, total set-off of Rs. 10.29 lakh was allowed on sale of finished goods prepared from aluminium ingots purchased from M/s Bharat Alluminium Company Ltd. Further scrutiny of the records revealed that Rs. 21.59 crore (31.84 *per cent*) out of the total sales of Rs. 67.79 crore was transferred to different branches. The branch transfer outside the State did not fall under the category of sales but was not proportionately reduced by the

⁷ Rs. 23.69 lakh on iron and steel and Rs. 50,000 on furnace oil.

AO. This resulted in irregular grant of set-off of Rs. 3.27 lakh (31.84 *per cent* of total set-off allowed).

After the case was pointed out, the department stated in December 2006 that set-off was limited to the tax rate applicable on goods as per CGCT Act but was silent on the excess set-off allowed.

The matter was reported to the Commissioner and the Government in April 2007; their reply has not been received (November 2008).

2.8 Non-levy of value added tax

According to Section 9-B of the CGCT Act, value added tax (VAT) is leviable on the differential amount between the tax paid purchases and sales thereof in respect of resale of goods except declared goods and exempted goods.

Test check of the records of ACCT, Raipur in December 2006 revealed that a dealer engaged in purchase and sale of cereals, de-oiled cake, *khalli*⁸, sugar etc. was assessed in December 2002 for the period from April 1999 to March 2000. Out of the total sale of Rs. 50.21 crore, the dealer had sold de-oiled cake valued at Rs. 29.08 crore. This included sale of de-oiled cake worth Rs. 8.25 crore on which the AO did not levy VAT as the purchase was made from exempted units. However, the VAT was leviable as Section 9-B did not provide for any relief for purchase from any exempted units. This resulted in non-levy of VAT of Rs. 2.84 lakh calculated on Rs. 30.86⁹ lakh i.e. the difference between the purchase and sale price.

After the case was pointed out, the department stated in June 2007 that as per notification of June 1995, VAT is not leviable. This interpretation was not correct as the notification of 1995 related to exemption from Section 9 whereas VAT was introduced subsequently through a new Section 9-B in May 1997 which was not governed by the earlier notification.

The matter was reported to the Commissioner and the Government in March 2007; their reply had not been received (November 2008).

2.9 Short levy of tax due to application of incorrect rate

As per Section 9 of the CGCT Act read with Schedule-II, commercial tax including surcharge on biscuits and crocin (medicine) is leviable at 13.8 *per cent* and 9.2 *per cent* respectively for the period 1 January 2000 to 31 March 2000.

Test check of the records of the ACCT, Raipur in December 2006 revealed that a dealer engaged in the purchase and sale of biscuits and medicines etc. was assessed in January 2003 for the period from April 1999 to March 2000. However, commercial tax on sale of biscuits and crocin valued at Rs. 81.11 lakh (sale made during the period 1 January 2000 to 31 March 2000) was levied at the rate of 9.2 *per cent* and 6.9 *per cent* instead of 13.8 *per cent* and

⁸

Residue left after extraction of oil from oil seeds.

⁹

Total value addition [Rs. 1.09 crore = sale value (Rs. 29.08 crore) – purchase value (Rs. 27.99 crore)] on sale of de-oiled cake purchased from exempted units on which VAT was not levied = $8.25 / 29.08 \times 1.09 = \text{Rs. } 30.86 \text{ lakh.}$

9.2 *per cent* leviable with effect from 1 January 2000. This resulted in short levy of tax of Rs. 2.51 lakh.

After the case was pointed out, in the case of sale of biscuits, the AO stated that action would be taken after verification of records while in the case of crocin, it was stated that in the assessment order there was no item on which tax was levied at 6.9 *per cent*. The reply is not correct as in the assessment order, the AO while calculating the total tax payable, has levied taxes on biscuits and crocin at 9.2 *per cent* and 6.9 *per cent* respectively.

The matter was reported to the Commissioner and the Government in April 2008; their reply has not been received (November 2008).

CHAPTER - III: STATE EXCISE

3.1 Results of audit

Test check of the records of State excise conducted during 2007-08 revealed non-assessment, underassessment, loss of revenue and non-levy of penalty amounting to Rs. 18.74 crore in 1,143 cases:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1.	Levy and collection of excise revenue – (A review)	1	14.95
2.	Non/short levy of excise duty	644	2.43
3.	Non-levy/recovery of duty on excess wastage	454	0.41
4.	Others	44	0.95
Total		1,143	18.74

During the year 2007-08, the department accepted underassessment of Rs. 53.78 lakh in 912 cases.

The results of a review of “levy and collection of excise revenue” with monetary implication of Rs. 14.95 crore are mentioned in the following paragraphs.

3.2 Levy and collection of excise revenue

Highlights

- Absence of norms for yield of alcohol from grain deprived the Government of revenue of Rs. 117.07 crore.
(Paragraph 3.2.7)
- Deficiencies in fixation of revenue targets for groups of liquor shops.
(Paragraph 3.2.8)
- Revenue loss of Rs. 8.68 crore due to non-establishment of departmental laboratory in the State.
(Paragraph 3.2.9)
- Non-levy of penalty of Rs. 5.49 crore for failure to maintain minimum stock.
(Paragraph 3.2.12)
- Non-levy of duty of Rs. 78.33 lakh on excess wastage in transportation of bottled country spirit.
(Paragraph 3.2.13)

3.2.1 Introduction

Excise revenue comprises receipts derived from any payment i.e. duty, fee or confiscation, imposed or ordered under the provisions of Chhattisgarh Excise Act, 1915 and rules and notifications issued thereunder. It also includes revenue from manufacture, possession and sale of liquor, *bhang* and poppy heads. The department maintains a set of liquor shops and gives annual licences to private contractors to sell country spirits, foreign liquor, *bhang* and poppy from these shops. Licences for manufacture of liquor are granted and renewed every year by the Excise Commissioner on payment of a prescribed fee subject to prior approval of the State Government.

3.2.2 Organisational set up

The Principal Secretary cum Excise Commissioner (EC) is the administrative head of the department. He is responsible for formulation and implementation of the excise policy. Two Additional Excise Commissioners, one Deputy Commissioner (DC) and four Assistant Commissioners (AC) assist him at the headquarters. The department has three divisions each headed by a DC who supervises district offices, distilleries and bottling plants in the division. The Collector is the head of excise administration in all 16 district headquarters and is assisted by Excise Department Officers i.e. AC/District Excise Officer (DEO) at district headquarters/distilleries.

Chhattisgarh has three distilleries which have five bottling plants and another six bottling plants with franchise for foreign liquor. There are 27 warehouses in the State. The functioning of distilleries/bottling plants/warehouses is controlled and supervised by DEO/Assistant DEO/Excise Inspector etc.

The marketing of Indian made foreign liquor (IMFL) and imported liquor is done by the Chhattisgarh State Beverages Corporation Limited.

3.2.3 Audit scope and methodology

Audit conducted the test check of the records of Excise Commissioner, Chhattisgarh, four¹ out of the 16 district offices, all the three distilleries, five out of 11 bottling plants and 10 out of 27 warehouses. The units were selected by applying the method of simple random sampling without replacement. Records for the period from 2003-04 to 2007-08 were test checked between February 2008 and May 2008.

3.2.4 Audit objectives

The review was conducted with a view to ascertain

- whether adequate norms exist to govern the production of alcohol from different raw materials and are being adhered to;
- adequacy of the revised process of allotment of wine shops introduced under the State Excise Policy, 2001;
- whether wastages during manufacture, transit and storage of alcohol and liquor are monitored in accordance with the rules; and
- adequacy and effectiveness of internal control mechanism.

3.2.5 Acknowledgment

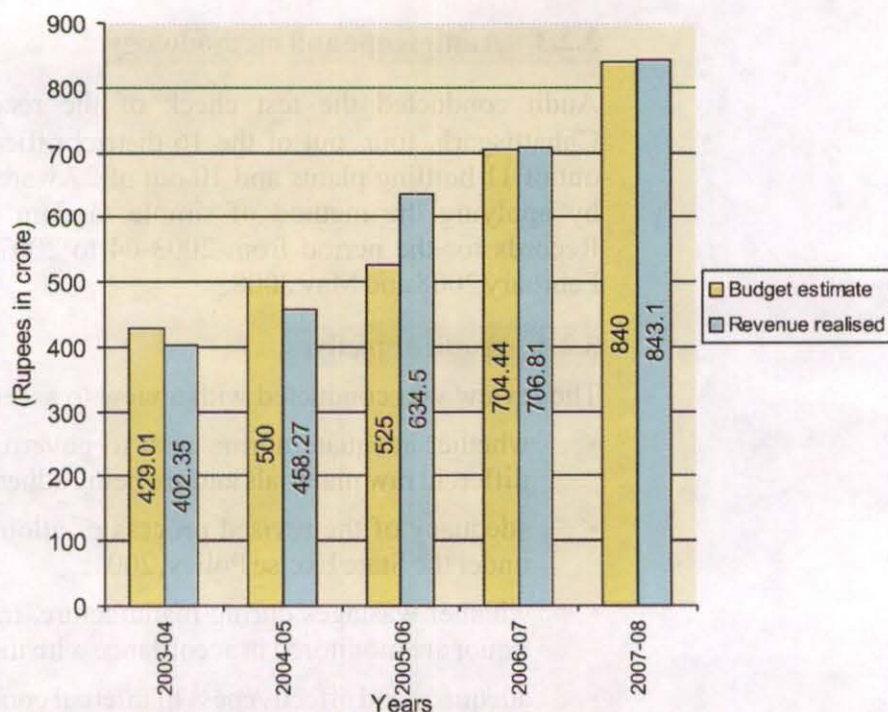
Indian Audit and Accounts Department acknowledges the co-operation of the State Excise Department in providing necessary information and records for audit. The audit methodology and scope of audit scrutiny was discussed with the Excise Commissioner, Chhattisgarh in an entry conference held in February 2008. The review was forwarded to the State Government on 6 October 2008 and discussed in the audit review committee meeting (exit conference) held on 27 November 2008. The department gave their responses and assured to further examine the audit observations and recommendations. The replies of the department have been appropriately incorporated in the respective paragraphs.

3.2.6 Trend of excise revenue

The preparation of the annual budget estimate of excise revenue is the responsibility of each DEO/AC. This estimation is based on the revenue expected to be collected in a year in the shape of licence fee, duty, permit fee, bottling fee, application fee, labeling fee etc. Details of budget estimates and actual revenue realised from 2003-04 to 2007-08, as reported in the Finance Accounts are depicted below:

¹ Bilaspur, Durg, Jagdalpur and Raipur.

Comparison between budget estimates and revenue realised



Audit findings

System deficiencies

3.2.7 Norms for yield of alcohol from grain

The Chhattisgarh Distillery Rules, 1995 prescribe controls and norms for production of alcohol from molasses such as permits for purchase of molasses, drawal of samples, analysis of samples to ascertain fermentable sugar, content of the wash of each set up, estimation of the production of alcohol from each set up etc. Rules provide for minimum yield of 91.8 proof litres (PL) of alcohol per quintal of fermentable sugar. The rules however do not prescribe any such norms or benchmarks for alcohol production from grain.

Audit scrutiny revealed that in addition to using molasses, all the three test checked distilleries were also producing alcohol from grain i.e. rice. The alcohol obtained per quintal of grain (rice) ranged from 43.44 PL to 61 PL and in one set up for the month of June 2007 in Welcome Distillery, Bilaspur it was as high as 105.36 PL.

The Technical Excise Manual² stipulates that 7.7 gallons of alcohol is to be obtained from 220 pounds (one quintal) of rice which converts to 61.2 PL per quintal of rice. This was neither followed by the department nor was any other norm inserted in the Chhattisgarh Distillery Rules after due analysis. Using it

² Paragraph 39 of the Technical Excise Manual edition of 1997.

as a benchmark, it would translate to short production of 243.90 lakh PL in the distilleries as mentioned in the table below:

Name of the distillery	Year	Grain used (lakh quintals)	Actual Yield obtained (in lakh PL)	Actual Yield obtained per quintal (in PL) (col. 4 ÷ 3)	Yield as per the bench mark (in lakh PL) (col. 3 x 61.2)	Short production (in lakh PL) (col. 6 - 4)
1	2	3	4	5	6	7
Kedia Distillery (CG Distilleries) Durg	2003-04	0.01	0.61	61.00	0.61	0.00
	2004-05	5.52	239.81	43.44	337.82	98.01
	2005-06	4.94	222.32	45.00	302.33	80.01
	2006-07	4.49	222.43	49.54	274.79	52.36
Welcome Distillery, Bilaspur	2006-07	0.49	25.04	51.10	29.99	4.95
	2007-08	0.49	26.09	53.24	29.99	3.90
Bhatia Distillery, Bilaspur	2007-08	0.93	52.25	56.18	56.92	4.67
Total		16.87	788.55		1032.45	243.90

Had the minimum recovery been fixed at 61.2 PL per quintal of grain in these distilleries, Government could have earned additional revenue of Rs. 117.07 crore (calculated at Rs. 48 per PL) as excise duty.

This indicates that the Government may evolve provisions for recovery of alcohol from grain as in the case of molasses to avoid revenue leakage. In the exit conference, the Government intimated that in view of the audit recommendation, it would start the process of framing provisions for production from grain, by collecting and examining the prevailing Rules in other States.

3.2.8 Deficiencies in fixation of revenue targets for groups of liquor shops

With effect from financial year 2002-2003, the Government of Chhattisgarh introduced a new system³ of annual allotment of liquor shops by lottery. Every year, the District Collectors with the assistance of DEOs divide the shops into groups and propose the excise revenue target for each group of shops to the EC who approves the targets with modifications, if any. This approved target for the district is then apportioned among the groups of shops in the district. The Collector notifies these approved targets while calling for applications every year.

Scrutiny of the records of DEOs in Bilaspur, Durg, Jagdalpur and Raipur revealed that the targets were proposed by increasing the target of the previous year by a certain percentage. The increases were not uniform in different districts.

The excise revenue comprises two parts, i.e. licence fee and excise duty. The licence fee is 60 per cent of the target fixed which has to be compulsorily paid regardless of the actual sale of liquor and is, therefore, fixed. The second part

³ In the old system, allotment was done on the basis of public auctions.

is the excise duty on actual sales subject to minimum of 40 *per cent* of the target fixed and is, therefore, the variable component of the excise revenue. It is observed from the tabulation of four districts (Appendix 1.1) that targets fixed were always less than the actual revenue realisation for year 2003-04 to 2007-08. As the licence fee component is fixed, the variation between target and actual revenue realisation was only due to the variable excise duty component. Consequently, in the four districts test checked, the excise duty component of the targets was substantially lower than the actual excise duty realised in all five years.

The process of fixing targets for a financial year takes place in the month of December preceding that financial year. Thus, when the department fixed the targets in December 2007 for the year 2008-09, the department had district wise time series data on actual excise duty realised during the years 2003-04 to 2006-07. Line graphs were plotted by audit for each district (Appendix 1.2) using the available data in December 2007 i.e. the actual excise duty realised from 2003-04 to 2006-07. The plotted line was extended to obtain the projected excise duty realisation for 2007-08 based on the trend of actual realisation from 2003-04 to 2006-07. The projected realisation from the line graph is very close to the actual excise duty realised in 2007-08 as tabulated below and therefore the line graphs are giving an accurate projection of the duty realisation.

Year 2007-08		(Rupees in crore)		
District	Raipur	Bilaspur	Durg	Jagdalpur
Projected duty realisation from line graph	85.00	34.00	52.00	2.90
Actual excise duty realised in 2007-08	87.20	37.87	53.64	3.49

Therefore, the projected excise duty for 2008-09 was ascertained from the line graphs and the actual targets fixed for the year 2008-09 were found to be substantially lower as depicted in Appendix 1.3.

While a lower target will not affect excise duty collection which is realised on actual sales, there will be a short realisation of licence fee as it is a fixed component of the target i.e. 60 *per cent*. Consequently, the Government will have a short realisation on account of licence fee which could be in the range of Rs. 49.57 crore in the four test checked districts as detailed in Appendix 1.3.

It is recommended that the Government should re-examine the methodology for fixing targets using prescribed parameters such as time series data of actual revenue collection to do a trend analysis to fix targets for the districts.

In the exit conference, the Government intimated that while fixing the targets for 2009-10, every effort would be made to do a trend analysis of the past targets and actual revenue realisation. It was also informed that there were wide variations between districts and a common criteria was not feasible. It was suggested by audit that a mathematical trend analysis could be used to start the process and all other factors could be applied thereafter to fix the final target.

3.2.9 Loss of revenue due to delay in testing samples

The Chhattisgarh Distillery Rules prescribe that the distillers are required to obtain a yield of 52.5 alcohol litres or 91.8 PL of alcohol per quintal of fermentable sugar present in molasses. A fine at the rate of Rs. 30 per PL is leviable on the distiller on the volume of short production. For this purpose, the officer-in-charge of distillery draws three samples at the time of preparation of wash from molasses to ascertain the amount of fermentable sugar in the sample. He retains one sample, sends the second sample to the Government laboratory and gives the third sample to the distiller for analysis in his own laboratory. The department determines the anticipated yield of alcohol based on the report of the fermentable sugar content from the departmental laboratory.

The State does not have any departmental/Government laboratory even after more than seven years of the formation of the State. The samples drawn in distilleries are sent to the departmental laboratory of the Government of Madhya Pradesh, located at Gwalior. During test check of the records of three distilleries, it was observed that there were delays ranging from seven days to five months between the date of drawal of sample and date of analysis in the department laboratory. Due to the delays, the amount of fermentable sugar in the sample was getting reduced by the natural process of fermentation. For example, in Chhattisgarh Distilleries (formerly known as Kedia Distillery), a sample was drawn on 7 March 2007 and the analysis report in distiller's laboratory showed the fermentable sugar content as 49.9 *per cent* whereas the analysis conducted on 5 April 2007 by departmental laboratory showed it as 41.84 *per cent*. Therefore, after one month the sample showed much lower fermentable sugar as compared to the initial sample.

Based on the sample analysis reports of two distillers⁴, during the period 2003-04 to 2007-08, against 2.11 lakh quintals of the molasses used, 187.85 lakh PL of alcohol should have been produced, against which actual production was only 169.77 lakh PL. This resulted in shortfall of 18.08 lakh PL of alcohol which translates to a loss of revenue of Rs. 8.68 crore.

During the exit conference it was intimated that a laboratory has been sanctioned by Government and it will be established expeditiously.

It is recommended that in the interim, the Government should calculate the anticipated yield from the higher of the two reports, from the distiller and departmental laboratory.

3.2.10 Inadequate control over bottling in distilleries

3.2.10.1 Non-maintenance of records of receipt and consumption of empty bottles etc.

According to Rule 6(1) of the Chhattisgarh Distillery Rules, an account will be taken of the stocks of distillery at such interval and in such manner as the EC may direct, and a statement in the prescribed form shall be submitted by the excise officer posted in the distillery.

⁴ Chhattisgarh Distilleries, Durg and Welcome Distillery, Bilaspur.

Scrutiny of records of the bottling units and distilleries selected for the review revealed that the officers-in-charge posted there were maintaining detailed records of receipt and consumption of empty bottles and corks/caps for country liquor as per provisions of Chhattisgarh Country Spirit Rules, 1995. These records were, however, not being maintained for IMFL as there were no such provisions in Chhattisgarh Foreign Liquor Rules, 1996 for bottling of IMFL.

The Government may therefore consider introducing similar provisions for IMFL. In the exit conference, it was intimated that the recommendation of audit would be examined.

3.2.10.2 Actual loss in transit not recorded

According to Rule 6(4) of Chhattisgarh Distillery Rules, an allowance shall be made for the actual loss in transit by leakage or evaporation of spirit transported from distillery to distillery, distillery to warehouse and from one warehouse to another warehouse when transported in drums/ tankers at the rates indicated below:

Distance	Maximum rate of wastage allowance
In drums	
Upto 250 Kms	0.3 per cent
Above 250 Kms but not exceeding 500 Kms	0.4 per cent
Above 500 Kms	0.5 per cent
In tankers	
Upto 250 Kms	0.1 per cent
Above 250 Kms	0.2 per cent

Scrutiny of the records maintained at distilleries and warehouses showed that the receiving warehouses in every case had recorded a wastage equal to the maximum permissible wastage allowance without measuring the actual loss.

After this was pointed out, the officers-in-charge of the warehouses/distilleries concerned intimated that sometimes breakage etc. is very high so in order to adjust the loss, it is being recorded at maximum permissible limit. The reply is misleading as transportation in drums and tankers does not involve any breakage. The rule envisages measuring of volume at the receiving end and recording actual loss which is not being done.

In the exit conference, the Government agreed to issue directions to distilleries and warehouses to measure and record actual loss.

3.2.11 Working of Internal Audit Wing

Internal audit wing is a vital component of the internal control mechanism which enables an organisation to assure itself that the prescribed systems are functioning reasonably well.

The internal audit wing of the Excise Department comprises one Joint Director (Finance) in the office of the Excise Commissioner, under whom only one Accounts Officer is posted. During scrutiny it was ascertained that no programme for internal audit was made and only 15 general inspections had been conducted during the period of review.

Due to non-conducting of internal audit, the department is not in a position to ensure that the various activities were being carried out as per the provisions prescribed in the Act, rules and manuals and to plug leakages of revenue.

In the exit conference, the Government intimated that action would be taken to strengthen the internal audit wing.

Compliance deficiencies

3.2.12 Non-levy of penalty for failure to maintain minimum stock of spirit in warehouses

According to Rule 4(4) of Chhattisgarh Country Spirit Rules, a licensee shall maintain at each storage warehouse, a minimum stock of bottled liquor equivalent to average issue of five days of the preceding month. In the event of failure to maintain the minimum stock of spirit in warehouse, the Collector may impose a penalty not exceeding Rs. 2 per litre on the licensee, for the quantity found short of the prescribed minimum stock. This penalty shall be payable by the licensee irrespective of whether any loss has actually been caused to the Government or not.

Scrutiny of the records of 12 DEOs revealed that there were 1,113 occasions when the licensees did not maintain the minimum stock. However, only in a few cases in Jagdalpur district, action was initiated to levy penalty. In the remaining cases, no action was taken by the DEOs to levy penalty after scrutinising the returns of the licensees. Consequently, penalty upto Rs. 5.49 crore was not levied on 274.65 lakh PL of spirit found short. Since, minimum stock was not maintained in the warehouses, the cases should have been scrutinised and depending on the merits in each instance the penalty should have been imposed, as was done in Jagdalpur.

In the exit conference, the Government agreed that the cases must be scrutinised and decided on merit and informed that instructions would be issued to all districts.

3.2.13 Non-levy of duty on excess wastage in transportation of bottled country liquor

Rule 10(A) (1) of Chhattisgarh Country Spirit Rules, lays down the maximum permissible limits of wastage for transport of bottled country liquor. It is 0.1 per cent of the transported quantity if the manufacturing warehouse and the storage warehouse are located in the same district and 0.25 per cent if they are located in different districts. Further as per Rule 10(A)(3), if wastage is more than the permissible limit, the prescribed duty on that excess wastage shall be recovered from the licensee.

During test check of the records of 10 warehouses⁵ and two distilleries⁶ it was observed that the warehouse officers accounted for losses by preparing a 'panchnama'⁷ and forwarded to DEO/AC Excise of the district concerned. From these 'panchnamas,' it was found that during the period 2003-04 to

⁵ Baloda Bazaar, Balod, Bemetara, Bhilai, Durg, Gatauri, Gariyaband, Jagdalpur, Mungeli and Raipur.

⁶ Chhattisgarh Distilleries, Durg and Welcome Distilleries, Bilaspur.

⁷ Declaration prepared by warehouse officer and verified by the witnesses.

7-08, though transit wastage of bottled country liquor in excess of minimum permissible limit amounted to 1.63 lakh PL involving duty of Rs. 78.33 lakh, no action was taken at any level to levy and realise the duty. This resulted in non-levy of duty of Rs. 78.33 lakh.

3.2.14 Conclusion

Excise revenue is an important source of revenue of the State Government. The Government has not yet specified norms for the production of alcohol from grain due to which there is chance of potential revenue loss. There were deficiencies in fixations of annual excise revenue targets for group of shops. The State has not set up a sample testing laboratory even after seven years of State formation resulting in revenue loss. The department is not exercising control as envisaged in rules over the working of distillery/warehouses with respect to non-maintenance of minimum stock, wastage in transit and bottling of IMFL.

3.2.15 Summary of recommendations

The Government may consider taking the following action for rectifying the system deficiencies:

- introduce requisite provisions for production of alcohol from grains;
- re-examine the methodology for fixing targets using available trend of revenue realisation;
- start the departmental laboratory in State for testing of molasses samples and in the meantime, the department should calculate the anticipated yield from the higher of the two reports, from the distillery and the departmental laboratory;
- examine Rule 4(4) of Chhattisgarh Country Spirit Rules, 1995 and clarify how it is to be applied in cases of non-maintenance of minimum stock;
- issue instructions to record actual loss in transit by leakage or evaporation of transported spirit; and
- strengthen the internal audit wing and its functioning to ensure adherence to the provisions of the Acts/rules by departmental officers and to plug leakage of revenue.

CHAPTER - IV: TAXES ON VEHICLES

4.1 Results of audit

Test check of the records of the Transport Department conducted during the year 2007-08 revealed non-realisation of tax and loss of revenue amounting to Rs. 14.18 crore in 1,686 cases, which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Short realisation of trade tax	698	8.62
2.	Non-realisation of tax and penalty	876	3.87
3.	Other irregularities	112	1.69
Total		1,686	14.18

During the year 2007-08, the department accepted loss of revenue and other deficiencies in 1,051 cases amounting to Rs. 7.61 crore.

A few illustrative cases involving Rs. 6.69 crore highlighting important audit findings are mentioned in the following paragraphs.

4.2 Short realisation of trade tax from dealers

According to Section 4 of the Chattisgarh Motoryan Karadhan Adhiniyam (CGMV Act), 1991, read with Section 33 of Central Motor Vehicle (CMV) Rules, 1989, a dealer to whom a trade certificate has been issued under the Motor Vehicles Act, 1988, will pay trade tax in respect of vehicles in his possession during the course of business. Schedule III of the CGMV Act, specifies the rate of trade tax for first seven vehicles and for every lot of additional seven vehicles in possession of the dealer during the course of his business.

Test check of the records of two¹ regional transport officers (RTO) in June 2007 revealed that 202 automobile dealers had obtained trade certificates from the respective transport officers. It was observed that 1,68,240 vehicles were registered during 2005-06 and 2006-07. However, dealers paid trade tax of Rs. 4.93 lakh only as against Rs. 3.16 crore payable during the period at the rate prescribed in Schedule-III of the CGMV Act which resulted in short realisation of trade tax of Rs. 3.11 crore.

After the cases were pointed out, the RTO, Raipur stated (June 2007) that according to the CGMV Act, tax is to be collected on the basis of trade certificate granted to the dealer and the same has been collected. The reply does not explain the huge gap between the trade tax actually collected and the number of vehicles registered. There was no record on the basis of which they were assigning the trade numbers indicated on the trade certificates. There was no evidence that the Transport Department was comparing the sale made by the dealer with their trade certificates. The sales figure of four dealers in Raipur was compared with the trade certificates issued by the RTO, Raipur. The three dealers sold 4,044, 7,801 and 2,152 vehicles as against the trade number of seven and one dealer had sold 8,063 vehicles as against trade number 21 as indicated in their trade certificates. It confirms that the trade number assigned to the dealers in trade certificate were not commensurate with the size of the business of the dealers.

The matter was brought to the notice of the department and the Government in June 2008; their reply has not been received (November 2008).

4.3 Non-realisation of taxes from the owners of transport vehicle

According to Section 3 and 5 of the CGMV Act, tax shall be levied on the owner of every goods and passenger vehicle used or kept for use in the State at the rate prescribed in the first Schedule of the Act. In case of non-payment of the tax due, the owner shall, in addition to the payment of tax due, be liable to pay penalty at the rate of one twelfth of the unpaid amount of tax for the default of each month or part thereof but not exceeding the unpaid amount of tax as laid down under section 13(1) of the Act. Where any owner fails to pay tax, penalty, or both, the

¹ RTO, Durg and RTO, Raipur.

taxation authority is required to issue a demand notice and take action to recover the amount as arrears of land revenue.

Test check of the records of nine transport offices² between April 2006 and February 2008 revealed that though the owners of 150 passenger vehicles and 528 goods vehicles failed to pay the road tax of Rs. 1.83 crore for the period falling between April 2002 and March 2007, no action was initiated by the RTOs/additional RTOs to raise the demand and recover the tax from the defaulting vehicle owners. This resulted in non-realisation of tax of Rs. 1.83 crore. Besides, penalty of Rs. 1.75 crore was also leviable for delay in payment of tax.

After the cases were pointed out, all the transport officers, except of Durg, stated (June 2007) that demand notices against the defaulting vehicle owners would be issued after verification of cases. The additional RTO, Durg intimated (June 2007) that flying squad has been informed to realise taxes. A report of recovery has not been received (November 2008).

The matter was reported to the department and the Government between April and June 2008; their reply has not been received (November 2008).

² ARTO, Ambikapur; RTO, Bilaspur; District transport office (DTO), Dantewada; ARTO, Durg; RTO, Jagdalpur; DTO, Korba; DTO, Raigarh; RTO, Raipur and ARTO, Rajnandgaon.

CHAPTER - V: ELECTRICITY AND SAFETY

5.1 Results of audit

Test check of the records of Electricity and Safety Department conducted during the year 2007-08 revealed non/short realisation of electricity duty and interest amounting to Rs. 61.39 crore in 23 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
1.	Non-realisation of interest	02	25.78
2.	Non-realisation of electricity fee	10	22.93
3.	Non-realisation of development cess from producers of electrical energy	02	1.16
4.	Loss of revenue due to non-inspection of installations	01	0.29
5.	Other irregularities	08	11.23
Total		23	61.39

During the year 2007-08, the department accepted deficiencies involving Rs. 29.07 crore in six cases.

After issue of the draft paragraphs, the department recovered an amount of Rs. 7.42 lakh in full against one paragraph.

A few illustrative cases involving revenue of Rs. 57.76 crore highlighting important audit findings are mentioned in the following paragraphs.

5.2 Non-levy of interest

As per Section 3 of Madhya Pradesh Electricity Duty (MPED) Act, 1949 (as adopted by Chhattisgarh), every distributor and producer of electrical energy shall pay duty at the prescribed rate. In case of failure to pay the duty within the prescribed date, the producers of electricity are required to pay interest under Section 5 of the Act at the rate prescribed vide notification dated 22 July 1975.

Test check of the records of the Chief Electrical Inspector (CEI), Raipur in August 2007 revealed that the Chhattisgarh State Electricity Board (CSEB) had not paid electricity duty amounting to Rs. 188.06 crore and cess amounting to Rs. 34.23 crore during the period from September 2005 to July 2006. Due to non-payment of Government dues by the CSEB, the Government adjusted the outstanding electricity duty against the subsidy paid during the period March 2006 to March 2007 but interest¹ amounting to Rs. 25.68 crore on the above duty was not levied. Further, dues of Rs. 14.71 crore pertaining to the period between October 2006 and February 2008 remained unpaid upto April 2008 for which interest of Rs. 2.35 crore though leviable was not levied. This resulted in non-realisation of revenue of Rs. 28.03 crore.

After the case was pointed out, the department replied (January 2008) that action to recover the interest has been taken up and the position will be intimated after recovery. A report on recovery has not been received (November 2008).

The matter was reported to the Government in March 2008; their reply has not been received (November 2008).

5.3 Non-realisation of electricity duty

Under the provision of Section 3 of the MPED Act (as adopted in Chhattisgarh), every distributor and every producer of electrical energy shall pay electricity duty every month calculated at the rates prescribed within the prescribed date.

Test check of the records of the CEI, Electricity and Safety, Raipur in August 2007 revealed that though in case of 10 captive power producers, electricity duty amounting to Rs. 18.62 crore for the period between September 2002 and March 2007 was not paid, no action was taken by the department to recover the dues. This resulted in non-realisation of revenue of Rs. 18.62 crore.

After the case was pointed out, the department replied (June 2008) that all the producers are exempted from payment of duty as per notification dated 6 November 1992 for a period of five years from the date of starting generation. Further, the department also stated that keeping in view the Rule 3(1)(a)(ii) of the Electricity Rules 2005, no exemption certificates were issued. The reply is not consonant with the provisions as Rule 3(1)(a)(ii) of the Electricity Rules only defines a captive power plant and does not state that they do not require exemption certificate as

¹ Interest calculated upto May 2008.

represented by the department. The notification of November 1992 referred to by the department clearly states that the certificate of eligibility for exemption from payment of electricity duty has to be obtained from the Electrical Inspector concerned and the producer shall be regarded as eligible for exemption only on the basis of such certificate. Since the department had not issued any exemption certificate, it was not clear how it had ascertained that the producers were exempt since the eligibility for exemption or otherwise would have been examined while considering issue of exemption certificate and would be followed by grant of exemption or refusal. Further reply has not been received (November 2008).

The matter was reported to the Government in June 2008; their reply has not been received (November 2008).

5.4 Non-realisation of duty due to irregular exemption

According to Section 3 of the MPED Act (as adopted by Chhattisgarh), every distributor of electrical energy and every producer shall pay each month to the State Government within the prescribed date and in the prescribed manner, a duty calculated on electrical energy sold/supplied/consumed at the specified rate.

Test check of the records of the CEI, Raipur in August 2007 revealed that the Bhilai Steel Plant (BSP), Bharat Aluminum Corporation (BALCO) and Bhilai Electric Supply Co. Pvt. Ltd. (BES) claimed exemption from payment of duty on 9,71,35,166 units, 30,25,90,070 units and 4,01,68,380 units respectively for the period from March 2002 to February 2007 on account of loss in transit calculated at three *per cent*. The departmental authorities allowed the exemption although the Act does not have any provision to allow such losses. This resulted in non-realisation of revenue of Rs. 11.11 crore.

After the cases were pointed out, the CEI replied (August 2007) that in the case of BSP, exemption at three *per cent* was allowed as loss in transit as per the orders of Electrical Advisor and CEI, Madhya Pradesh letter dated 24 November 1984 while in the case of BALCO it was stated that information would be intimated later. In case of BES, no reply was given. The reply is not consonant with the instruction of November 1984 referred in case of BSP as it was in the form of a letter issued by the CEI, Madhya Pradesh to the Managing Director, BSP and not an order of the Government. There was no such provision in the Act to allow exemption for transit losses.

The matter was reported to the department and the Government in June 2008; their reply has not been received (November 2008).

CHAPTER - VI: LAND REVENUE

6.1 Results of audit

Test check of the records of Land Revenue Department conducted during the year 2007-08 revealed non-recovery of processing fees/premium/penalty etc. amounting to Rs. 25.70 crore in 2,721 cases which fall under the following categories:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Delay in collection of revenue recovery certificate	170	4.70
2.	Non/short levy of process fee	71	2.63
3	Non-realisation of cess/non-recovery of penalty	2,211	1.88
4.	Other irregularities	269	16.49
Total		2,721	25.70

An illustrative case involving Rs. 6.35 lakh is mentioned in the following paragraph.

6.2 Non-levy of proceeding fees

Rule 4 of the Madhya Pradesh Lok Dhan (*Shodhya Rashiyon Ki Vasuli Niyam* 1988 (as adopted by Chhattisgarh) provides for levy of cost of proceedings at the rate of three *per cent* of the principal amount of revenue due from defaulters as indicated in the revenue recovery certificates.

Test check of the records of the Collector (*Sadar Wasil Vaki Nabis* Branch), Jashpur in September 2004 revealed that the cost of proceedings of Rs. 6.35 lakh was not included in 5,779 cases while raising the demand of principal amount of Rs. 2.12 crore for the period from 2000-01 to 2003-04. This resulted in non-levy of proceeding fees of Rs. 6.35 lakh.

After the case was pointed out, the department replied (May 2007) that two and half *per cent* commission on recovery of *Lokdhan* has been credited into Government account by the bank. The reply was not based on facts as the two and half *per cent* commission is the amount recoverable under Bank Recovery Incentive Special Cell (BRISC) and is different from the cost of proceedings as clearly indicated in the circular dated 6 March 1996 issued by the Commissioner, Institutional Finance.

The matter was reported to the Government in April 2007; their reply has not been received (November 2008).

CHAPTER - VII: MINING AND OTHER NON-TAX RECEIPTS

7.1 Results of audit

Test check of the records of the Water Resources, Geology and Mining and Co-operative departments conducted during the year 2007-08 revealed non-realisation of water charges, non/short levy and assessment of royalty, dead rent and cess etc. amounting to Rs. 68.36 crore in 642 cases which fall under the following categories:

(Rupees in crore)			
Sl. No.	Category	Number of cases	Amount
Geology and Mining Department			
1.	Non/short levy of dead rent and interest	358	53.65
2.	Underassessment of royalty and other irregularities	282	14.45
Total		640	68.10
Water Resources Department			
1.	Non-recovery of water charges	1	0.11
2.	Other irregularities	1	0.15
Total		2	0.26
Grand total		642	68.36

During the year 2007-08, the departments concerned accepted non/short levy of dead rent and interest, under assessment of royalty, non-recovery of water charges and other deficiencies amounting to Rs. 56.88 crore in 472 cases.

After issue of draft paragraphs, the Geology and Mining Department recovered an amount of Rs. 23.24 lakh in one case.

A few illustrative cases involving revenue of Rs. 12.36 crore highlighting important audit findings are mentioned in the following paragraphs.

GEOLOGY AND MINING DEPARTMENT

7.2 Non-remittance of royalty to the Government account

As per Rule 29 of Chhattisgarh Financial Code, any revenue collected on behalf of the Government should be remitted promptly into the Government account.

Test check of the records of the District Mining Officer (DMO), Raipur in June 2007 revealed that the Municipal Corporation, Raipur had deducted royalty amounting to Rs. 4.13 crore from the contractors who executed works under their control for the period 1998-99 to 2005-06. The corporation did not remit the amount to the Government account which resulted in non-remittance of royalty of Rs. 4.13 crore and unauthorised retention of Government money.

After the case was pointed out, the Collector intimated (May 2008) that out of Rs. 4.13 crore, an amount of Rs. 8 lakh has been deposited to the Government account in March and April 2008 and the corporation has been asked to remit the balance Rs. 4.05 crore. The reply did not indicate the reasons for failure to enforce the provisions for immediate remittance of royalty till it was pointed out in audit. Moreover, despite accepting unauthorised retention of Government money for such a considerable period of time, the department failed to ensure remittance of the entire amount into the Government coffers. Further development has not been received (November 2008).

The matter was reported to the Government (June 2008); their reply has not been received (November 2008).

7.3 Short levy of penalty

According to Rule 53(5) of the Chhattisgarh Minor Mineral (CGMM) Rules, 1996, the Collector/Additional Collector/Joint Director/Dy. Director/Mining Officer or officer authorised by Zila/Janpad may, either before or after the institution of the prosecution in unauthorised extraction cases, compound the offence on payment of such fine which may extend to double of the market value of mineral so extracted but in no case may be less than Rs. 1,000 or 10 times of the royalty of mineral so extracted, whichever is higher.

Test check of the records of the DMO, Rajnandgaon in August 2006 revealed that the DMO detected 11 cases of unauthorised extraction during the period between July 2005 and June 2006. These cases were sent to the Additional Collector's court under the provisions of the Chhattisgarh Land Revenue Code, 1959 for compounding; after proposing a total penalty of Rs. 3.50 lakh. As per the above stated rule, the total penalty should not have been less than 10 times of the royalty which is Rs. 23.10 lakh. This has resulted in short levy of penalty of Rs. 19.60 lakh.

After the case was pointed out, the department replied in June 2007 that all the cases of unauthorised extraction have been referred to Additional Collector's Court under Chhattisgarh Land Revenue Code and is still pending for decision but the reply did not explain the reason for proposing lower penalty.

The matter was reported to the Director, Geology and Mining, Chhattisgarh and the Government in June 2008; their reply has not been received (November 2008).

PUBLIC WORKS DEPARTMENT

7.4 Non-realisation of revenue due to non/short deduction of royalty from the bills of contractors

According to the Madhya Pradesh Public Works Department (MPPWD) manual (as adopted by Chhattisgarh), levy of royalty on construction material is governed by the MP Minor Mineral Rules, 1961, as amended from time to time and adopted in Chhattisgarh. Further, as per clause 36 of the agreement on Form 'A' as prescribed in MPPWD manual, the executive engineer (EE) of the division concerned is responsible for making deduction of amount of royalty from the contractor's running bill at the prevailing rates at that time and remit it into the Government account immediately, if clearance certificate from the Collector is not submitted.

Test check of the records of four¹ public works divisions revealed that though the contractors failed to submit the royalty clearance certificate, the EEs of the divisions concerned did not deduct royalty of Rs. 1.59 crore at the prevailing rate from the running bills of the contractors in nine cases while in one case royalty of Rs. 62.85 lakh was deducted instead of Rs. 1.37 crore. This resulted in non/short realisation of revenue of Rs. 2.33 crore.

After the cases were pointed out, the EE, Water Management-I, Raipur, replied (November 2006) that the reason for short deduction of royalty was that the deduction of royalty has been made at the rate prevailing at the time of agreement. Remaining EEs replied that the contractors have been asked to produce royalty clearance certificates. However, the replies were not in consonance with the provisions that either the contractor uses royalty paid material and submits royalty clearance certificate or the EEs deduct royalty at the rate prevailing at the time of consumption.

The matter was brought to the notice of the department and the Government in June 2008; their reply has not been received (November 2008).

¹ PWD(B/R), Dantewada; Project Implementation Unit, Pradhan Mantri Gram Sadak Yojana, Dantewada; Water Management Division, Division-I, Raipur; Mahanadi Reservoir Project Disnet, Tilda.

7.5 Retention of revenue in deposit account

As per Rule 2(d) of Chhattisgarh Treasury Code, all revenues of the Government should be remitted into the Consolidated Fund of the State.

Test check of the records of the EE, Bridge division, PWD, Ambikapur; EE, National Highway (NH), Division-II, PWD, Raipur; EEs, Building and Roads (BR) Divisions, Rajnandgaon and Bijapur between October 2006 and January 2007 revealed that royalty of Rs. 1.01 crore was recovered from the contractors running account bills and kept in deposit accounts instead of remitting into the Consolidated Fund of the State under the concerned revenue head. This resulted in irregular retention in deposit head and understatement of revenue receipts by Rs. 1.01 crore.

After the cases were pointed out, the EE, NH division-II, PWD, Raipur and EE, BR division, PWD, Rajnandgaon stated (October 2006 and December 2006) that royalty was kept in deposit account in anticipation of submission of royalty clearance certificate by the contractors concerned. The reply is not consonant with the provisions which provide that all revenues are to be remitted to the Consolidated Fund. The EE, BR division, West Bastar, PWD, Bijapur (December 2006) and EE, Bridge division, PWD, Ambikapur stated (January 2007) that royalty would be credited to revenue head and intimated to audit. The position of actual credit to revenue heads has not been intimated (November 2008).

The matter was reported to the department and the Government in June 2008; their replies have not been received (November 2008).

WATER RESOURCES DEPARTMENT

7.6 Non-recovery of water charges

As per the provisions of MPPWD Manual (as adopted by Chhattisgarh), water charges should be recovered from beneficiary farmers and deposited in the Government account.

Test check of the records of the EE, Water Resources, Kharang division, Bilaspur in November 2006 revealed that an amount of Rs. 5.27 crore for the period April 1996 to October 2006 was pending for recovery. Of this, the department was able to recover an amount of Rs. 7.82 lakh only till the end of October 2006 resulting in non-recovery of the balance of Rs. 5.20 crore.

After the case was pointed out, the Government endorsed (November 2007) the reply of the EE stating that in the absence of any irrigation agreements between farmers and the EE and sale of agricultural land for developing colonies, it is very difficult to enforce the recovery. It was also stated that farmers were reluctant to pay the water charges because Government frequently announced concessions and waiver of outstanding dues. Subsequently, the Government in September 2008 intimated a further recovery of Rs. 17.38 lakh. A report on recovery of balance amount has not been received (November 2008). It is

recommended that the Government should frame suitable strategy for recovery of water charges.

CO-OPERATIVE DEPARTMENT

7.7 Non-realisation of audit fees

According to Section 58(1) of the Chhattisgarh Co-operative Societies Act, 1960 read with Rule 50-A of the Chhattisgarh Co-operative Societies Rules, 1962, every society, the accounts of which are audited by the Registrar of Co-operative Societies, shall pay to the State Government a charge for the audit of its accounts for each year in accordance with the scale laid down in the schedule in respect of the class of society to which it belongs. The Registrar shall communicate the charges payable by the society. Audit fees of primary consumer societies affiliated to central co-operative bank shall be deposited by the bank itself.

7.7.1 Test check of the records of the Assistant Registrar (AR), Co-operative Societies (Audit), Janjgir-Champa in December 2005 revealed that audit fees of Rs. 31 lakh though recoverable from 121 co-operative societies during the period 1998-99 to 2004-05 was not realised till the date of audit.

After the case was pointed out, the AR stated in September 2006 that audit fees of Rs. 18.58 lakh has been recovered through challans and Rs. 12.42 lakh was pending for recovery. The details of recovery such as challan numbers and dates has not been intimated (November 2008).

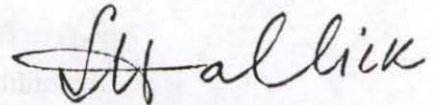
7.7.2 Test check of the records of the Sub-Registrar (SR), Co-operative Societies (Audit), Raigarh in December 2005 revealed that audit fees of Rs. 19.85 lakh was recoverable during 1993-94 to 2003-04. Of this, audit fee of Rs. 18.36 lakh pertained to audit of district co-operative, Central Bank, Raigarh, which had been closed with effect from 7 November 2003 and is under the process of liquidation. Timely action to recover the audit fee was not taken by the department which resulted in non-realisation of revenue of Rs. 19.85 lakh.

After the case was pointed out, the SR stated (December 2005) that action would be taken for recovery. Further development has not been intimated (November 2008).

The matter was reported to the department and the Government in May 2007. Reply has not been received (November 2008).

Raipur
The

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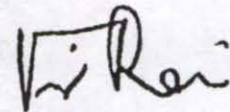


(SUBIR MALLICK)
Accountant General (Audit)
Chhattisgarh

Countersigned

New Delhi
The

5 FEB 2009



(VINOD RAI)
Comptroller and Auditor General of India

Appendix 1.1

(Referred to in paragraph 3.2.8)

Breakup of excise revenue in excise duty and licence fee

(In Rupees)

District	Year	Targets fixed by the department			Actual realisation		
		Licence fee	Excise duty	Total	Licence fee	Excise duty	Total
Raipur	2003-04	54,37,02,466	36,24,68,310	90,61,70,776	54,37,02,466	38,96,11,285	93,33,13,751
	2004-05	60,64,11,834	40,42,74,556	1,01,06,86,390	60,64,11,834	47,49,73,103	1,08,13,84,937
	2005-06	67,62,17,135	45,08,11,423	1,12,70,28,558	67,62,17,135	60,67,15,948	1,28,29,33,083
	2006-07	78,29,44,800	52,19,63,200	1,30,49,08,000	78,29,44,800	74,38,31,872	1,52,67,76,672
	2007-08	90,05,80,500	60,03,87,000	1,50,09,67,500	90,05,80,500	87,19,63,214	1,77,25,43,714
Durg	2003-04	43,47,13,686	28,98,03,779	72,45,17,465	43,47,13,686	31,19,92,022	74,67,05,708
	2004-05	47,81,94,063	31,87,95,937	79,69,90,000	47,81,94,063	33,94,25,983	81,76,20,046
	2005-06	52,11,99,575	34,63,77,874	86,75,77,449	52,13,57,270 ¹	38,66,92,402	90,80,49,672
	2006-07	60,42,22,007	40,28,14,671	1,00,70,36,678	60,42,22,007	47,24,94,157	1,07,67,16,164
	2007-08	69,21,83,542	46,14,55,695	1,15,36,39,237	69,21,83,542	53,64,19,814	1,22,86,03,356

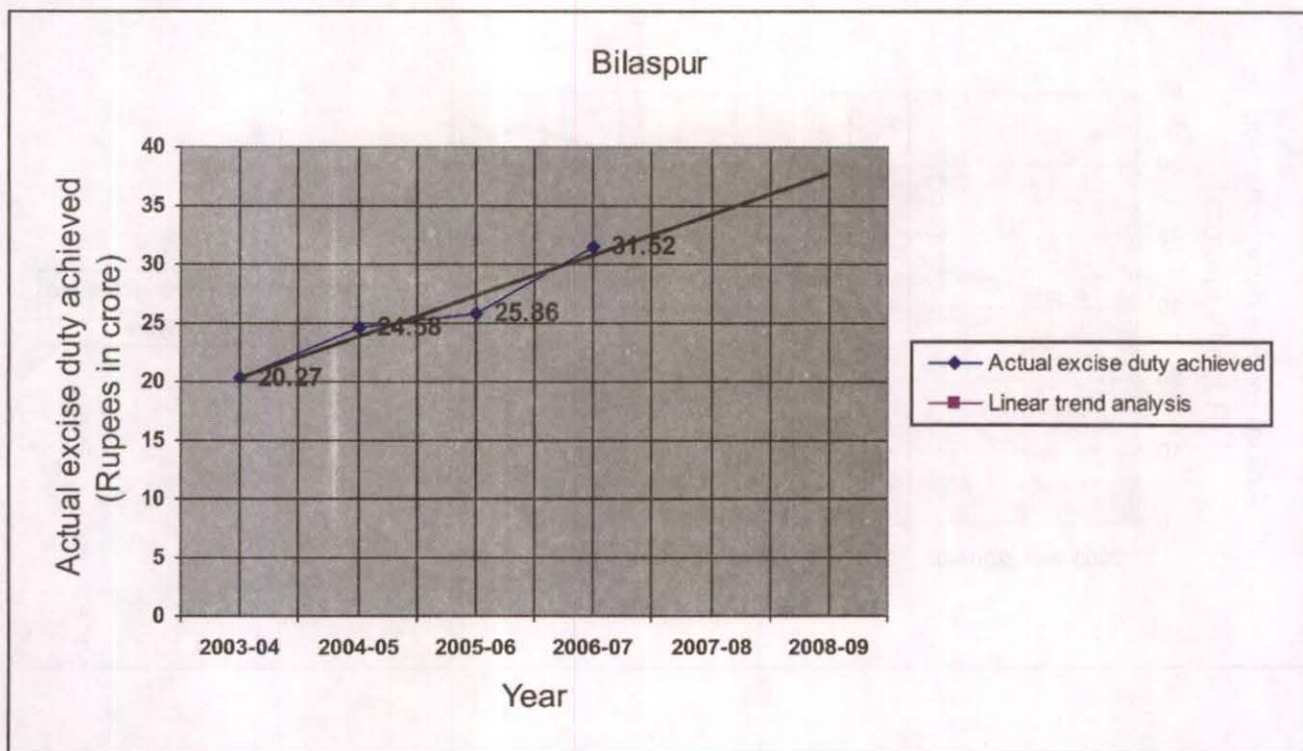
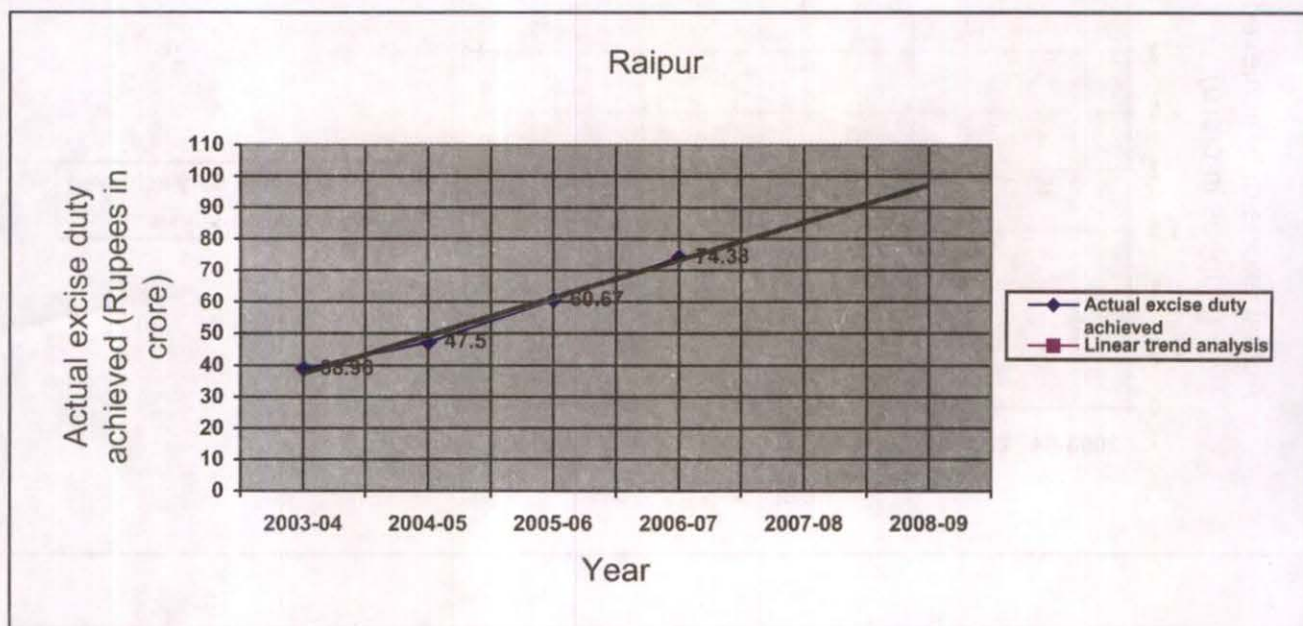
¹ The difference in actual realisation of licence fees and target licence fees is due to the excess licence fee deposited for Foreign liquor shop of Bhilai-3 in Group 11 by Rs.1,57,695.

Audit Report (Revenue Receipts) for the year ended March 2008

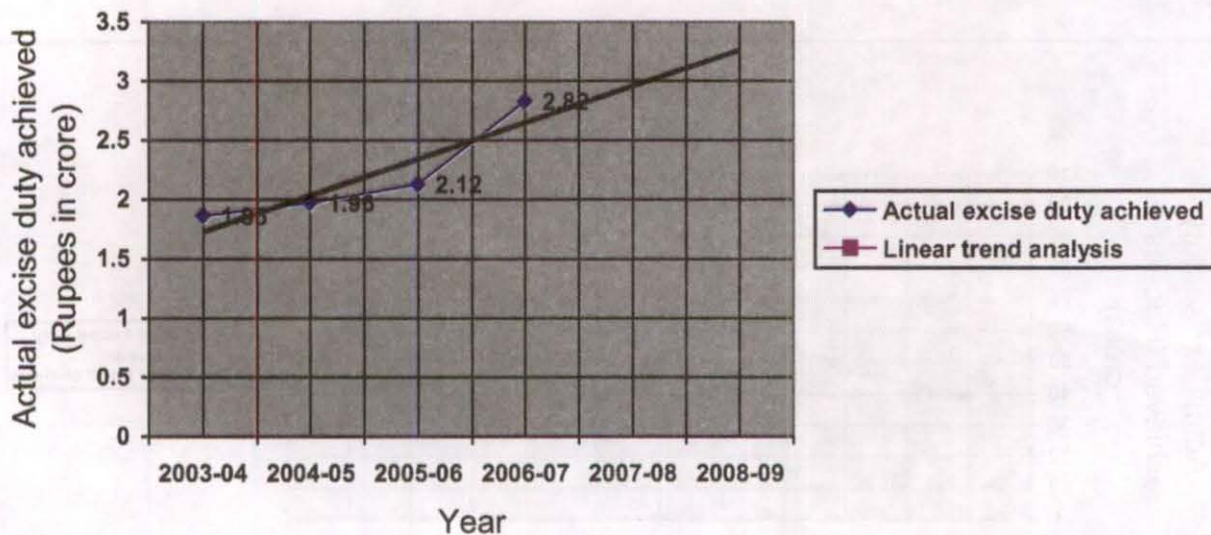
Bilaspur	2003-04	29,10,00,006	19,39,99,994	48,50,00,000	29,10,00,006	20,27,36,942	49,37,36,948
	2004-05	32,00,70,526	21,34,00,000	53,34,70,526	32,00,70,526	24,58,25,217	56,58,95,743
	2005-06	34,26,65,864	23,09,96,950	57,36,62,814	34,26,65,864	25,85,78,149	60,12,44,013
	2006-07	39,94,83,800	26,63,22,359	66,58,06,159	39,94,83,800	31,52,38,999	71,47,22,799
	2007-08	44,95,71,809	30,15,14,990	75,10,86,799	44,95,71,809	37,87,10,359	82,82,82,168
Jagdalpur	2003-04	2,42,98,679	1,61,89,051	4,04,87,748	2,42,98,679	1,85,07,027	4,28,05,706
	2004-05	2,62,94,905	1,75,29,935	4,38,24,840	2,62,94,905	1,95,81,041	4,58,75,946
	2005-06	2,78,47,957	1,85,65,288	4,64,13,245	2,78,47,957	2,11,80,162	4,90,28,119
	2006-07	3,08,72,196	2,05,81,464	5,14,53,660	3,08,72,196	2,82,22,461	5,90,94,657
	2007-08	3,34,31,966	2,22,87,977	5,57,19,943	3,34,31,966	3,49,36,420	6,83,68,386

Appendix 1.2

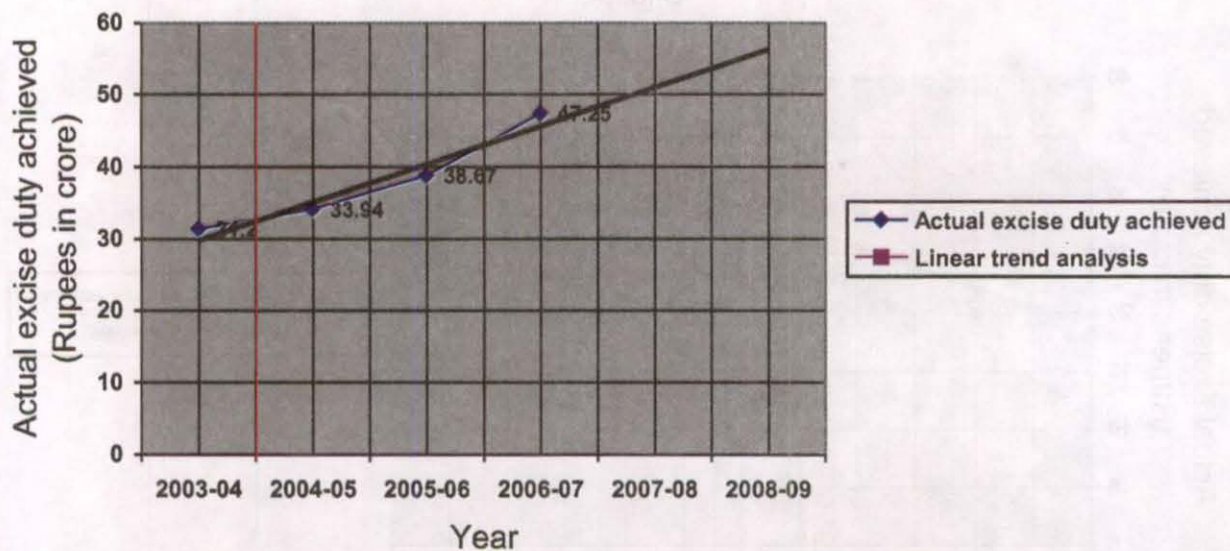
(Referred to in paragraph 3.2.8)



Jagdalpur



Durg



Appendix 1.3

(Referred to in paragraph 3.2.8)

Year 2008-09

(Rupees in crore)

Districts	Raipur		Durg		Bilaspur		Jagdalpur		Total	
	Licence fee	Excise duty	Licence fee	Excise duty	Licence fee	Excise duty	Licence fee	Excise duty	Licence fee	Excise duty
1	2	3	4	5	6	7	8	9	10	11
Targets fixed by the Department	105.37	70.25	78.91	52.61	52.02	34.68	4.08	2.72	240.38	160.26
Projected target (using expected realisation from line graph)	144	96	84	56	57	38	4.95	3.3	289.95	193.30
Difference	38.63	25.75	5.09	3.39	4.98	3.32	0.87	0.58	49.57	33.04 ²

² Difference of Excise Duty of Rs. 33.04 crore would be 40 percent of difference in excise revenue which implies difference in licence fee would be Rs. 49.57 crore i.e. 60 percent of excise revenue.

