

**REPORT OF THE  
COMPTROLLER AND AUDITOR GENERAL  
OF INDIA**

**FOR THE YEAR ENDED 31 MARCH 2002**

**(REVENUE RECEIPTS)  
GOVERNMENT OF UTTAR PRADESH**



## *Table of Contents*

Paragraph	Particulars	Page
	<i>Prefatory Remarks</i>	v
	<i>Overview</i>	vii
<b>Chapter I</b>	<b>General</b>	<b>1</b>
1.1	Trend of revenue receipts	1
1.2	Variations between Budget estimates and actuals	3
1.3	Cost of collection	4
1.4	Performance of assessment work in Trade Tax Department	5
1.5	Analysis of collection	7
1.6	Arrears of Revenue	7
1.7	Results of audit	8
1.8	Outstanding Inspection Reports and audit observations	9
1.9	Audit Paragraphs / Reviews outstanding for discussion by Public Accounts Committee as on 31 December 2002	10
<b>Chapter 2</b>	<b>Trade Tax Department</b>	<b>13</b>
2.1	Results of Audit	13
2.2	Review on "Exemption / Concession under U.P. Trade Tax Act, 1948"	14
2.3	Reopening of Assessment orders under Section 30 of U.P. Trade Tax Act, 1948	20
2.4	Short levy of tax	22
2.5	Non-levy of purchase tax	27

<b>Paragraph</b>	<b>Particulars</b>	<b>Page</b>
2.6	Non-levy of additional tax	27
2.7	Short levy of Central Sales Tax	28
2.8	Non-levy of interest	28
2.9	Misuse of declaration forms	29
2.10	Non-levy of tax on turnover escaping assessment	29
2.11	Incorrect Exemption	30
2.12	Non-levy of penalty	31
2.13	Non-imposition of penalty	32
2.14	Loss of revenue due to irregular adjustment of tax realised in excess from the customers	33
2.15	Short-levy of tax due to computation mistake	33
<b>Chapter 3</b>	<b>State Excise Department</b>	<b>35</b>
3.1	Results of Audit	35
3.2	Low production of alcohol from molasses	35
3.3	Non-levy of interest on belated payments	36
<b>Chapter 4</b>	<b>Taxes on Vehicles, Goods and Passengers</b>	<b>37</b>
4.1	Results of Audit	37
4.2	Short levy of additional tax	37
4.3	Short levy of tax and additional tax	38
4.4	Non-assessment of additional tax	38
4.5	Non-levy / realisation of additional tax/passenger tax	39
4.6	Loss of Revenue due to delay in circulation of Government notification	39



<b>Paragraph</b>	<b>Particulars</b>	<b>Page</b>
<b>Chapter 5</b>	<b>Stamp Duty and Registration Fees</b>	<b>41</b>
5.1	Results of Audit	41
5.2	Short-levy of Stamp Duty and Registration Fees due to undervaluation of property	41
5.3	Non-realisation of stamp duty	42
<b>Chapter 6</b>	<b>Land Revenue</b>	<b>43</b>
6.1	Results of Audit	43
6.2	Non-recovery of collection charges	43
<b>Chapter 7</b>	<b>Other Tax Receipts</b>	<b>45</b>
<b>A. Electricity Duty</b>		
7.1	Results of Audit	45
7.2	Non-levy of Electricity Duty	45
7.3	Non/Short levy of electricity duty	46
<b>B. Entertainment and Betting tax</b>		
7.4	Results of Audit	46
7.5	Non-assessment of Entertainment Tax	47
7.6	Non-realisation of unutilized amount of maintenance charges	47
<b>Chapter 8</b>	<b>Forest Receipts</b>	<b>49</b>
8.1	Results of Audit	49
8.2	Non-realisation of royalty	49
8.3	Loss of revenue due to non-charging of royalty on actual outturn of timber	50

<b>Paragraph</b>	<b>Particulars</b>	<b>Page</b>
<b>Chapter 9</b>	<b>Other Departmental Receipts</b>	<b>51</b>
	<b>A. Public Works Department</b>	
9.1	Results of Audit	51
9.2	Loss of Revenue due to non-compliance with the provisions of agreement	51
9.3	Short-realisation of licence fee	52
	<b>B. Irrigation Department</b>	
9.4	Results of Audit	52
9.5	Review on "Receipts from Major Irrigation Projects"	53
	<b>C. Finance Department</b>	
9.6	Review on Interest Receipts on Government Loans	63

## **Prefatory Remarks**

This Report for the year ended 31 March 2002 has been prepared for submission to the Governor under Article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising trade tax, state excise, land revenue, taxes on motor vehicles, stamp duty and registration fees, entertainment and betting tax, other tax and non-tax receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2001-2002 as well as those which came to notice in earlier years but could not be included in previous years' Reports.



## OVERVIEW

This report contains 31 Paragraphs and 3 Reviews relating to non-levy/short levy of tax, penalty, interest etc, involving Rs. 987.71 crore. Some of the major findings are mentioned below:

### 1. General

During the year 2001-2002 revenue raised by the State Government, both tax (Rs.10388.82.crore) and non tax (Rs. 1787.07 crore) amounted to Rs. 12175.89 crore as against Rs. 12924.62 crore during the previous year. Receipts under Trade Tax (Rs. 5052.40 crore) and State Excise (Rs. 1961.38 crore) accounted for a major portion (67.5 percent) of tax revenue receipts. Under non-tax revenue main receipts came from interest receipts (Rs. 543.49 crore), non-ferrous and mining and metallurgical industries (Rs. 190.19 crore) and forestry and wild life (Rs. 68.31 crore).

During 2001-2002 tax revenue and non tax revenue registered a decrease of 5.38 percent and 8.10 percent respectively over the receipts of the previous year.

*(Paragraph 1.1)*

Test check of records of Trade Tax, State Excise, Taxes on Vehicles, Goods and Passengers, Stamp Duty and Registration Fees, Land Revenue, Electricity Duty, Entertainment and Betting Tax, Forest Receipts and Other Departmental Receipts conducted during 2001-2002 revealed under assessment, short levy, loss of revenue etc. amounting to Rs.1298.13 crore in 2621 cases. During the course of the year 2001-2002, the departments concerned accepted under assessment and short levy etc. of Rs. 50.95 crore in 1026 cases of which 109 cases involving Rs.43.03 lakh had been pointed out in audit during 2001-2002 and the rest in earlier years.

*(Paragraph 1.7)*

Inspection Reports numbering 9323 issued upto 31 December 2001 containing 17168 audit observations with money value of Rs.5196.31 crore were not settled upto June 2002.

*(Paragraph 1.8)*

### 2. Trade Tax

A Review on "Exemption/concession under U.P. Trade Tax Act", revealed the following irregularities:

- 8 units in 6 circles were granted incorrect exemption from levy of tax amounting to Rs. 20.08 crore.

*(Paragraph 2.2.5)*



- 3 units in 2 circles were allowed excess grant of exemption from tax of Rs. 8.34 crore.

*(Paragraph 2.2.6)*

- The assessing authority incorrectly adjusted the tax at concessional rate for goods sold against declaration forms instead of at prevalent rate resulting in short adjustment of Rs. 3.02 crore.

*(Paragraph 2.2.7)*

- Grant of exemptions of tax on sales or purchases of goods with retrospective effect resulted in forgoing of revenue of Rs. 96.45 lakh.

*(Paragraph 2.2.8)*

- Irregular exemption on sales or purchases resulted in non-levy of tax of Rs. 2.11 crore

*(Paragraph 2.2.9)*

- Undue financial benefits of Rs. 115.81 crore accrued to dealers due to lacunae in Act/Rules/Notifications.

*(Paragraph 2.2.10)*

Other irregularities noticed in audit include:

- Non-finalisation of cases of 7 dealers under Section 30 resulted in blockage of Revenue of Rs. 45.29 crore.

*{(Paragraph 2.3. (A))}*

- Irregular reopening of cases under Section 30, resulted in loss of revenue amounting to Rs. 53.72 lakh.

*{Paragraph 2.3. (B)}*

- In 4 Trade Tax Offices, 4 dealers purchased raw material without payment of tax/at concessional rate for use in the manufacture of notified goods. But raw materials were not used for the purpose for which they were purchased and were disposed of otherwise by the dealers, but penalty of Rs. 5.12 crore was not levied.

*{Paragraph 2.12 (A)}*

### 3. State Excise

- Due to shortfall in production as per prescribed norms, there was loss of excise duty amounting to Rs. 17.12 crore in 13 distilleries during the year 1998-99 to 2001-2002.

*(Paragraph 3.2)*

- Government was deprived of revenue of Rs. 15.98 lakh due to non levy of interest on belated payment of excise revenue.

*(Paragraph 3.3)*

### 4. Taxes on Vehicles, Goods and Passengers

- Additional tax amounting to Rs. 1.74 crore was not levied on the city buses operating outside the municipal/corporation area.

*(Paragraph 4.2)*

### 5. Stamp Duty and Registration Fees

- 28 District Excise officers executed agreements for due performance of the contract during the years 1998-1999 to 2000-2001 and made security deposit of Rs. 171.50 crore on which stamp duty was not levied resulting in loss of revenue amounting to Rs. 21.14 crore.

*(Paragraph 5.3)*

### 6. Forest Receipts

- Delay in fixation of royalty of Tendu leaves not only defeated the very spirit of the Act, but also deprived the Government of Rs. 76.84 crore.

*(Paragraph 8.2)*

### 7. Irrigation Department

Review on "Receipts from Major Irrigation projects" revealed as under:

- Water rates/royalty amounting to Rs. 242.08 crore was not recovered from agriculturists and commercial agencies.

*(Paragraph 9.5.7)*



- Water charges/royalty was not / short levied on water supplied for commercial purposes amounting to Rs. 1.99 crore.

*(Paragraph 9.5.8)*

- Wastage/seepage of water supply for commercial purposes resulted in loss of revenue of Rs. 11.72 crore.

*(Paragraph 9.5.9)*

## **8. Finance Department**

Review on "**Interest Receipts on Government loans**" revealed as under:

- Due to lack of proper monitoring by heads of the departments, Government did not raise the demand for recovery of principal of Rs. 678.99 crore and interest accrued thereon of Rs. 545.73 crore for the period 1996-97 to 2000-2001.

*(Paragraph 9.6.6)*

- Issue of defective sanction orders caused loss of interest of Rs. 26.63 crore.

*(Paragraph 9.6.7)*

- Irregular rebate on interest was allowed to the tune of Rs. 12.72 crore.

*(Paragraph 9.6.8)*

- Loans retained and surrendered to the Government without utilization resulted in loss of interest of Rs. 2.52 crore.

*(Paragraph 9.6.9)*

- Interest to the tune of Rs. 41.19 crore was short paid due to computation mistakes.

*(Paragraph 9.6.10)*

- Delay in issue of share certificates on conversion of loans into equity resulted in loss of interest of Rs. 87.78 crore.

*(Paragraph 9.6.11)*

## CHAPTER-1: GENERAL

### 1.1 Trend of revenue receipts

The tax and non tax revenue raised by Government of Uttar Pradesh during the year 2001-2002, State's share of divisible Union taxes and grants-in-aid received from Government of India during the year and corresponding figures for the preceding two years are given below:

(Rupees in crore)

	1999-2000	2000-01	2001-02
<b>I. Revenue raised by the State Government</b>			
(a) Tax revenue	9400.91	10979.97	10388.82
(b) Non tax revenue	2011.74	1944.65	1787.07
<b>Total</b>	<b>11412.65</b>	<b>12924.62</b>	<b>12175.89</b>
<b>II. Receipts from the Government of India</b>			
(a) State's share of divisible Union taxes	7478.90	9045.47	10130.49 <sup>▲</sup>
(b) Grants-in-aid	2603.57	2773.18	3291.53
<b>Total</b>	<b>10,082.47</b>	<b>11818.65</b>	<b>13422.02</b>
<b>III. Total receipts of the State (I + II)</b>	<b>21495.12</b>	<b>24743.27</b>	<b>25597.91</b>
<b>IV. Percentage of I to III</b>	<b>53</b>	<b>52</b>	<b>48</b>

(i) The details of tax revenue for the year 2001-2002 along with the figures for the preceding two years are given in the following table :

(Rupees in crore)

Revenue Head	1999-2000	2000-01	2001-02	Increase (+) or decrease (-) in 2001-02 with reference to 2000-01	Percentage of increase or decrease with reference to 2000-01
1	2	3	4	5	6
1. Trade Tax	3703.59	5436.52	5052.40	(-) 384.12	(-) 7.07
2. State Excise	2126.33	2238.54	1961.38	(-) 277.16	(-) 12.38

▲ For details, please see statement No. 11- detailed accounts of revenue by Minor Heads in the Finance Accounts of the Government of Uttar Pradesh for the year 2001-2002. Figures under the Major Heads "0020 - Corporation Tax, 0021 Taxes on Income other than Corporation Tax, 0032 - Taxes on Wealth, 0037 - Customs, 0038 - Union Excise Duties and 0044 - Service Tax - share of net proceeds assigned to states booked in the Finance Accounts under 'A-Tax Revenue' have been excluded from Revenue raised by the state and included in 'State's share of divisible Union taxes' in this statement.



(Rupees in crore)

1	2	3	4	5	6
3. Stamp Duty and Registration Fees	1177.57	1269.75	1429.29	(+) 159.54	(+) 12.56
4. Tax on Sale of Motor Spirit and Lubricants	1359.31	586.39	1105.70	(+) 519.31	(+) 88.56
5. Taxes on Goods and Passengers	100.26	85.81	76.65	(-) 9.16	(-) 10.67
6. Taxes on Vehicles	512.10	543.08	503.04	(-) 40.04	(-) 7.37
7. Tax on Purchase of Sugarcane	36.35	95.45	5.00	(-) 90.45	(-) 94.76
8. Taxes and Duties on Electricity	126.41	136.30	9.22	(-) 127.08	(-) 93.24
9. Land Revenue	116.09	69.85	72.93	(+) 3.08	(+) 4.41
10. Other Taxes on Income and Expenditure	0.56	0.00	17.20	(+) 17.20	(+) 100
11. Taxes on Immovable Properties other than Agricultural Land	1.16	9.22	0.00	(-) 9.22	(-) 100
12. Other Taxes and Duties on Commodities and Services	135.89	504.58	152.34	(-) 352.24	(-) 69.81
13. Other (Hotel receipts and corporation tax, etc.)	5.29	4.49	3.67	(-) 0.82	(-) 18.26
<b>Total</b>	<b>9400.91</b>	<b>10979.97</b>	<b>10388.82</b>	<b>(-) 591.15</b>	<b>(-) 5.38</b>

The reasons for variation where it was substantial, though called for (August 2003), from the State Government, have not been received (September 2003).

(ii) The details of non-tax revenue for the year 2001-2002 along with the figures for the preceding two years are exhibited in the following table:

(Rupees in crore)

Revenue Head	1999-2000	2000-01	2001-02	Increase (+) or decrease (-) in 2001-02 with reference to 2000-01	Percentage of increase / decrease with reference to 2000-01
1	2	3	4	5	6
1. Misc. General Services	126.80	55.48	39.44	(-) 16.04	(-) 28.91
2. Interest Receipts	476.68	525.17	543.49	(+) 18.32	(+) 3.49
3. Forestry and Wild Life	160.52	76.86	68.31	(-) 8.55	(-) 11.12
4. Major and Medium Irrigation	40.16	282.13	115.76	(-) 166.37	(-) 58.97
5. Education, Sports, Art and Culture	137.63	177.24	137.66	(-) 39.58	(-) 22.33

1	2	3	4	5	6
6. Other Administrative Services	103.70	61.51	131.47	(+) 69.96	(+) 113.74
7. Non-ferrous Mining and Metallurgical Industries	180.17	196.44	190.19	(-) 6.25	(-) 3.18
8. Police	53.17	85.29	67.38	(-) 17.91	(-) 21.00
9. Crop Husbandry	16.51	58.36	75.77	(+) 17.41	(+) 29.83
10. Social Security and Welfare	26.37	23.53	36.33	(+) 12.80	(+) 54.40
11. Medical and Public Health	34.97	31.74	31.14	(-) 0.60	(-) 1.89
12. Minor Irrigation	36.61	18.96	17.73	(-) 1.23	(-) 6.49
13. Roads and Bridges	24.30	29.93	16.27	(-) 13.66	(-) 45.64
14. Public Works	26.77	26.94	14.66	(-) 12.28	(-) 45.58
15. Co-operation	17.76	6.54	5.23	(-) 1.31	(-) 20.03
16. Others	549.62	288.53	296.24	(+) 7.71	(+) 2.67
<b>Total</b>	<b>2011.74</b>	<b>1944.65</b>	<b>1787.07</b>	<b>(-) 157.58</b>	<b>(-) 8.10</b>

The reasons for variation where it was substantial, though called for (August 2003) from the state Government, have not been received (September 2003).

## 1.2 Variations between Budget estimates and actuals

The variations between Budget estimates and actuals of tax and non-tax revenues during the year 2001-2002 are given in the table below:

(Rupees in crore)

Revenue Head	Budget estimates	Actuals	Variation Increase (+) short fall (-)	Percentage of variations
1	2	3	4	5
<b>A. Tax Revenue</b>				
1. Trade Tax	5571.32	5052.40	(-) 518.92	(-) 9.31
2. State Excise	2460.16	1961.38	(-) 498.78	(-) 20.27
3. Stamp duty and Registration fee	1750.50	1429.29	(-) 321.21	(-) 18.35
4. Tax on Sale of Motor Spirit and Lubricants	1590.38	1105.70	(-) 484.68	(-) 30.48
5. Taxes on Goods and Passengers	564.10	76.65	(-) 487.45	(-) 86.41



(Rupees in crore)

1	2	3	4	5
6. Taxes on Vehicles	381.00	503.04	(+) 122.04	(+) 32.03
7. Other Taxes and Duties on Commodities and Services	151.74	152.34	(+) 0.60	(+) 0.40
8. Tax on Purchase of Sugarcane	7.01	5.00	(-) 2.01	(-) 28.67
9. Taxes and Duties on Electricity	159.08	9.22	(-) 149.86	(-) 94.20
10. Land Revenue	90.60	72.93	(-) 17.67	(-) 19.50
<b>B. Non-Tax Revenue</b>				
1. Misc. General Services	81.10	39.44	(-) 41.66	(-) 51.37
2. Interest Receipts	431.57	543.49	(+) 111.92	(+) 25.93
3. Forestry and Wild Life	71.06	68.31	(-) 2.75	(-) 3.87
4. Major and Medium Irrigation	196.50	115.76	(-) 80.74	(-) 41.09
5. Education, Sports, Art and Culture	213.96	137.66	(-) 76.30	(-) 35.66
6. Non Ferrous Mining & Metallurgical Industries	240.00	190.19	(-) 49.81	(-) 20.75

The reasons for variation where it was substantial, though called for (August 2003) from the state Government, have not been received (September 2003).

### 1.3 Cost of collection

The gross collections in respect of major revenue receipts, expenditure incurred on their collection and percentage of such expenditure to the gross collection during the years 1999-2000, 2000-2001 and 2001-2002 along with the relevant All India Average percentage of expenditure on collection to gross collection for 2000-2001 are given below:-

(Rupees in crore)

Revenue head	Year	Gross Collection	Expenditure on Collection	Percentage of expenditure to gross collection	All India Average for the year 2000-01
1	2	3	4	5	6
Trade Tax	1999-2000	3703.59	133.05	3.6	1.31
	2000-2001	6059.47	135.62	2.2	
	2001-2002	6158.55*	139.99	2.3	

\* As intimated by Department.

(Rupees in crore)

1	2	3	4	5	6
Taxes on Vehicles, Goods & Passengers	1999-2000	612.36	0.18	0.03	3.48
	2000-2001	641.00	10.57	1.6	
	2001-2002	644.10*	11.27	1.7	
State Excise	1999-2000	2126.33	24.16	1.1	3.10
	2000-2001	2237.75	28.09	1.3	
	2001-2002	1963.89*	11.27	0.6	
Stamp Duty and Registration fees	1999-2000	1177.57	20.80	1.8	4.39
	2000-2001	1268.86	25.56	2.01	
	2001-2002	1473.88*	19.82	1.3	

#### 1.4 Performance of assessment work in Trade Tax Department

##### (a) Arrears in assessment

The number of assessments pending at the beginning of the year, cases becoming due during the year, cases disposed of during the year and the cases pending finalisation at the end of the year, as reported by the Trade Tax Department for the years 1997-98 to 2001-2002 are given below:

Year	Opening Balance	Cases due for assessment during the year	Total	Cases finalised during the year	Balance at the close of the year	Percentage of column 5 to 4
1	2	3	4	5	6	7
1997-98	669353	451315	1120668	730551	390117	65.19
1998-99	442379	466899	909278	489535	419743	53.84
1999-2000	457508	489838	947346	489357	457989	51.66
2000-2001	457989	461697	919686	490853	428833	53.37
2001-2002	428833	524561	953394	485771	467623	50.95

It was seen that the opening balance of the years 1997-98, 1998-99 and 1999-2000 differs from the closing balance of the preceding years. The department stated that this was due to information received from other departments during the year and rectification of mistakes. The department needs to correct the system of maintenance of records to ensure consistency and correctness of statistics.

\* As intimated by Department.



**(b) Appeal and revision cases**

- (i) The number of appeal and revision cases due for disposal and finalised by the Trade Tax Department during the years 1997-98 to 2001-2002 together with the number of appeal and revision cases pending at the end of 2001-02 as reported by the Department are indicated in the following table:-

Year	Opening Balance	Number of appeals filed during the year	Total	Number of appeals disposed of during the year	Balance at the close of the year	Percentage of cases disposed of to the total number of cases
1	2	3	4	5	6	7
<b>Appeal cases</b>						
1997-98	66132	48794	114926	54932	59994	48
1998-99	59994	61931	121925	61339	60586	50
1999-2000	60586	55194	115780	64168	51612	55
2000-2001	51612	46876	98488	58905	39583	60
2001-2002	39583	44626	84209	56839	27370	67
<b>Revision cases</b>						
1997-98	57112	9544	66656	16609	50047	25
1998-99	50047	14225	64272	14858	49414	23
1999-2000	*47689	15395	63084	10639	52445	17
2000-2001	52445	16170	68615	10792	57823	16
2001-2002	57823	14872	72695	10295	62400	14

- (ii) Year-wise break up of the appeal and revision cases pending as on 31 March 2002 was as under:

Year	Pending as on 31 March 2002	
	Appeal cases	Revision cases
Upto 1999	104	Not available
2000	304	Not available
2001	16154	Not available
2002	10808	Not available
<b>Total</b>	<b>27370</b>	<b>Not available</b>

\* Difference of 1725 cases due to formation of Uttaranchal State.



### 1.5 Analysis of collection

The break-up of total collection (at pre-assessment stage and after regular assessment) of Trade Tax during 2001-2002 and corresponding figures for preceding two years as furnished by the Department are given below:

(Rupees in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Amount refunded	Net collection of tax	Percentage of Col.2 to 5
1	2	3	4	5	6
1999-2000	3732.35	107.33	55.04	3784.64	98
2000-2001	5934.99	124.48	37.44	6022.03	98
2001-2002	6003.61	134.24	23.70	6114.15	97

### 1.6 Arrears of Revenue

As on 31 March 2002, arrears of revenue under principal heads of revenue as reported by the concerned Departments were as under:

(Rupees in crore)

Sl. No.	Heads of revenue	Arrears pending collection		Remarks
		Total	More than 5 years old	
1	2	3	4	5
1	Trade Tax	6509.55 6297.09	Not available 918.19	Out of Rs. 6509.55 crore, demand for Rs. 894.08 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 112.90 crore and Rs. 39.33 crore had been stayed by the courts and Government respectively. Recoveries amounting to Rs. 228.70 crore were held up due to rectification / review applications. Demand for Rs. 2332.40 crore was likely to be written off. Specific action taken in respect of remaining arrears of Rs. 2902.14 crore had not been intimated by the Department.
2	Entertainment Tax	6.53 9.36	2.93 3.23	Out of Rs. 6.53 crore, demand for Rs. 1.79 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 4.01 crore and Rs. 0.40 crore had been stayed by the courts and Government respectively. Specific action taken in respect of remaining arrears of Rs. 0.33 crore, not intimated by the Department.

Concerned authorities have been directed to realise the arrears as early as possible.

(Rupees in crore)

1	2	3	4	5
3	State Excise	34.75 59.12	Nil	Out of Rs. 34.75 crore demand for Rs. 10.41 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 22.11 crore had been stayed by the court and 2.23 crore declared insolvent. 10.41 22.11 2.23
4	Taxes on vehicles, goods and passengers	38.00	2.73	Out of Rs. 38 crore demand of Rs. 8.41 crore had been certified for recovery as arrear of land revenue. Recoveries amounting to Rs. 0.65 crore and Rs. 0.44 crore had been stayed by the court and Government respectively. Specific action taken in respect of arrears of Rs. 28.50 crore had not been intimated by department.
5	Stamp Duty and Registration Fees	204.93	Not available	Out of Rs. 204.93 crore, demand of Rs. 19.82 crore had been certified for recovery as arrears of land revenue. Recoveries amounting to Rs. 108.94 crore had been stayed by the court and appellate authority respectively. No action was taken on realisation of arrears amounting to Rs. 76.17 crore.
6	Forestry and wild life	11.50 10.82	Not available 9.06	Out of Rs. 11.50 crore, demand of Rs. 7.95 crore had been certified for recovery as arrear of land revenue. Recovery amounting to Rs. 0.34 crore had been stayed by the court. Specific action taken in respect of remaining arrears of Rs. 3.21 crore had not been intimated by the department. 7.95 0.34 3.21 0.27 2.64

### 1.7 Results of audit

Test check of records of Trade Tax, State Excise, Taxes on Vehicles, Goods and Passengers, Stamp duty and Registration Fee, Land Revenue, Electricity duty, Tax on Purchase of Sugarcane, Entertainment Tax, Public Works Department, Irrigation Department and Forest Receipts etc. conducted during the year 2001-2002 revealed under assessments/short levy/loss of revenue amounting to Rs. 1298.13 crore in 2621 cases. During the course of the year 2001-2002 the concerned departments accepted under assessments etc. of Rs. 50.95 crore involved in 1026 cases, of which 109 cases involving Rs. 43.03 lakh had been pointed out in audit during 2001-2002 and the rest in earlier year.

This report contains 31 paragraphs and 3 reviews relating to non levy, short levy of tax, duty, interest, penalty etc. involving Rs. 987.71 crore. The departments/Government have accepted audit observations involving Rs. 50.95 crore in 1026 cases, of which Rs. 17.27 crore had been recovered till March 2002. No replies have been received in remaining cases (November 2002).



### 1.8 Outstanding Inspection Reports and audit observations

Audit observations on incorrect assessments short levy of taxes, duties, fees, etc. as also defects in initial records noticed during audit and not settled on the spot are communicated to the heads of offices and other departmental authorities through inspection reports. The more important irregularities are reported to the heads of departments and Government. The heads of offices are required to furnish replies to the inspection reports through the respective heads of departments within a period of two months.

The number of inspection reports and audit observations relating to revenue receipts issued upto 31 December 2001 which were pending settlement by the departments as on 30 June 2002, along with corresponding figures for the preceding two years are as given below:

Sl. No.		2000	2001	2002
1.	Number of inspection reports pending settlement	7300	8504	9323
2.	Number of outstanding audit observations	14709	15867	17168
3.	Amount of revenue involved (Rs. in crore)	1828.98	5080.99	5196.31

Department wise break-up of the inspection reports and audit observations outstanding as on June 2002 is given below: -

SL No.	Nature of receipts	Number of outstanding inspection reports	Number of outstanding audit observations	Amount of revenue involved (Rs. in crore)	Year to which the observations relate
1	2	3	4	5	6
1	Forestry and Wild Life	940	1997	1413.24	1990-91 to 2001-2002
2	Trade Tax	2735	5300	3069.53	1984-85 to 2001-2002
3	Irrigation	313	711	355.31	1984-85 to 2001-2002
4	State Excise	591	852	147.45	1984-85 to 2001-2002
5	Land Revenue	979	1453	28.21	1987-88 to 2001-2002

1	2	3	4	5	6
6	Taxes on Vehicle, Goods and passengers	761	2340	45.31	1984-85 to 2001-2002
7	Public Works	316	661	22.57	1984-85 to 2001-2002
8	Taxes on purchase of sugarcane	77	91	15.78	1985-86 to 2001-2002
9	Stamp duty and Registration fee	1776	2564	63.75	1983-84 to 2001-2002
Other Departments					
A	Agriculture	169	311	1.50	1984-85 to 2001-2002
B	Electricity Duty	364	413	21.58	1988-89 to 2001-2002
C	Food and Civil supplies	82	157	0.70	1984-85 to 2001-2002
D	Cooperation	88	109	5.79	1984-85 to 2000-2001
E	Entertainment Tax	132	209	5.59	1986-87 to 2001-2002
	<b>Total</b>	<b>9323</b>	<b>17168</b>	<b>5196.31</b>	

This was brought to the notice of Government in December 2002, intimation regarding steps taken by the Government to clear the outstanding inspection reports and audit observations has not been received (September 2003).

### **1.9 Audit Paragraphs / Reviews outstanding for discussion by Public Accounts Committee as on 31 December 2002**

The details of audit paragraphs and reviews awaiting discussion by the Public Accounts Committee are as follows:--

Year	Trade Tax	State Excise	Taxes on Vehicle, Goods and passengers	Stamp Duty and Registration Fees	Land Revenue	Other Tax Receipts	Forest Receipts	Other Departmental Receipts
1	2	3	4	5	6	7	8	9
1984-85	10	Nil	09	09	02	Nil	11	09
1985-86	11	07	16	04	05	07	11	14

1	2	3	4	5	6	7	8	9
1986-87	12	04	23	04	03	05	11	14
1987-88	14	10	17	05	05	06	08	Nil
1988-89	19	11	09	04	04	05	07	16
1989-90	12	10	09	02	06	04	11	20
1990-91	17	06	07	02	04	05	11	16
1991-92	13	06	05	04	02	05	06	11
1992-93	13	09	11	03	02	05	09	14
1993-94	15	07	12	03	02	04	06	13
1994-95	09	07	12	03	02	Nil	08	Nil
1995-96	05	03	05	01	Nil	05	08	03
1996-97	13	06	08	03	01	04	01	05
1997-98	Nil	Nil	Nil	Nil	Nil	04	Nil	04
1998-99	05	Nil	Nil	05	Nil	04	Nil	Nil
1999-2000	14	01	08	05	05	04	05	Nil
<b>Total</b>	<b>182</b>	<b>87</b>	<b>151</b>	<b>57</b>	<b>43</b>	<b>67</b>	<b>113</b>	<b>139</b> <b>(G.T. 839)</b>





## CHAPTER - 2 : TRADE TAX DEPARTMENT

### 2.1 Results of Audit

Test check of assessments and other records of Trade Tax Offices, conducted in audit during 2001-2002 revealed under assessment of tax, non-levy or short-levy of penalty/interest, irregular exemption of tax etc. amounting to Rs. 157.68 crore in 1299 cases, which broadly fall under the following categories:

(Rupees in crore)

Sl. No.	Categories	No. of cases	Amount
1.	Non-levy or Short-levy of penalty/interest	626	12.89
2.	Irregular exemption	180	8.55
3.	Non-levy of additional tax	50	1.40
4.	Incorrect rate of tax	191	4.61
5.	Misclassification of Goods	38	0.30
6.	Turnover escaping tax	53	0.34
7.	Irregularities relating to Central Sales Tax	27	0.84
8.	Under assessment of tax	20	0.10
9.	Exemption/ concession under UPTT Act, 1948	1	35.30
10.	Long D. P. on "Reopening of Assessment orders under Section 30 of UPTT Act, 1948".	1	45.83
11.	Other irregularities	112	47.52
	<b>Total</b>	<b>1299</b>	<b>157.68</b>

During the year 2001-2002, the department accepted under assessment etc. of Rs. 47.88 crore involved in 916 cases of which Rs. 43.03 lakh involving 109 cases had been pointed out in audit during 2001-2002 and rest in earlier years. Of this a sum of Rs. 5.80 lakh involved in 45 cases had been recovered upto March 2002.

A few illustrative cases and a Review on "**Exemption/concession under U.P. Trade Tax Act, 1948**" involving Rs. 100.37 crore are discussed in the following paragraphs:



## **2.2 Review on "Exemption/Concession under U.P. Trade Tax Act, 1948"**

### **2.2.1 Introduction**

Under the U.P. Trade Tax Act, 1948, (Act) State Government may, by notification, grant exemption from levy of tax on the sales or purchases of such goods by such other person or class of persons, with or without certain conditions, as may be prescribed.

With a view to increasing the production of certain goods or for promoting the development of industries, the Government of Uttar Pradesh introduced tax incentive schemes for the newly set-up industrial units for specified period under the provisions contained in Section 4-A of the Uttar Pradesh Trade Tax Act, 1948. The schemes offered several incentives and relief from taxation including exemption from or reduction in the rate of tax, moratorium from payment of admitted tax, exemption from levy of sales or purchase tax on purchase of raw materials and grant of interest free loans to the manufacturers holding eligibility certificate granted by the Industries Department. General Manager, District Industries Centre is responsible for issue of eligibility certificate in respect of units located in the district under his control while Area Development Officer is responsible for issue of eligibility certificate in respect of unit situated in Industrial Development Authority Area.

Section 4-B of the Act also provides for special relief in tax (Nil or concessional rate of tax) to manufacturers on purchase of raw materials, processing materials, and packing materials etc. required for the use in manufacture of notified goods on fulfilment of certain conditions.

The Act, further provides for levy of tax and penalty for non-compliance of recitals of declarations and conditions prescribed therein etc.

### **2.2.2 Organisational Set-up**

The overall superintendence, control and direction of Trade Tax department vests with the Commissioner of Trade Tax, U.P., who is assisted by Additional Commissioners, Deputy Commissioners, Asstt. Commissioners and Trade Tax Officers. The State is divided into 14 zones<sup>©</sup> consisting of 36 ranges, each headed by Addl. Commissioner and Dy. Commissioner (Executive) respectively. The range is further divided into circles and sectors, each under the charge of an Asstt. Commissioner (Assessment) and Trade Tax Officer respectively.

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© After formation of State of Uttaranchal

### 2.2.3 Scope of Audit

With a view to ascertaining the extent of compliance with the provisions of the Act/ Rules and departmental instructions regarding exemptions and incentives allowed to new industries from time to time and to prevent evasion of tax, a review was conducted from September 2001 to April 2002. For this purpose, test check of assessment records for the period from 1996-97 to 2000-2001, was carried out in the offices of the Asstt. Commissioners (Assessment) and Trade Tax Officers of 15 ranges out of 36 ranges.

### 2.2.4 Highlights

- 8 units in 6 circles were granted incorrect exemption from levy of tax amounting to Rs. 20.08 crore.

(Para 2.2.5)

- 3 units in 2 circles were allowed excess grant of exemption from tax of Rs. 8.34 crore

(Para 2.2.6)

- 5 units in 3 circles were allowed incorrect concessions of Rs. 3.02 crore on purchase of raw materials.

(Para 2.2.7)

- Grant of exemptions on sales or purchases of goods with retrospective effect resulted in forgoing of revenue of Rs. 96.45 lakh.

(Para 2.2.8)

- Irregular exemption on sales or purchases resulted in non-levy of tax of Rs. 2.11 crore.

(Para 2.2.9)

- Undue financial benefits of Rs. 115.81 crore accrued to dealers due to lacunae in Act/Rules/ Notifications.

(Para 2.2.10)

### 2.2.5 Incorrect grant of exemption

Under Section 4-A of the Act, exemption from/reduction in the rate of tax is available to a new unit only if it furnishes to the assessing officer an eligibility certificate issued by



the Industries Department. The name of goods to be manufactured, investment in fixed capital assets, installed annual production capacity, quantum of tax relief and period for which it can be availed of by the unit are specified in the eligibility certificate.

(I) Under Section 3-AAAA of the U.P. Trade Tax Act, 1948, the sale of dressed hides and skins or of tanned leather after dressing or of raw hides and skins, shall be deemed to be of same form and condition, as no manufacturing is involved.

In two Trade Tax Circles (Agra and Kanpur) it was noticed that three units were granted eligibility certificate between September 1990 and September 1997 for exemption from tax for different periods for manufacture and sale of finished (tanned) leather. As tanned leather is not different from raw hides and skins under the Act, no manufacturing was involved. The irregular issue of eligibility certificate resulted in grant of incorrect exemption to these units amounting to Rs. 9.00 crore.

(II) A new unit established by a person after 31 March 1990, to be eligible for exemption, can not manufacture the same goods on or at an adjacent site of an existing factory manufacturing the same goods wherein such person has interest as promoter, director, as holding company or as subsidiary company, if such existing factory is closed.

In Trade Tax Circle Kanpur, a unit manufacturing M.S. Ingot was granted eligibility certificate for tax exemption of Rs. 2.31 crore with effect from 19 June 1995 to 18 June 2001. Test check of records revealed that another unit which was established on the same site was closed down in March 1996 after availing benefit of tax exemption of Rs. 76.50 lakh from 15 June 1988 to 29 May 1995. As the promoters / directors of both the units were the same, the eligibility certificate issued for grant of exemption of Rs. 2.31 crore was incorrect.

(III) The Government vide notification dated 27 May 1991 granted exemption from or reduction in rate of tax to new units and also to units which have undertaken expansion, diversification or modernisation. As per notification, units engaged in filtering oil after its purchase are not eligible for exemption.

(a) In two Trade Tax Circles (Kanpur & Lucknow) it was noticed that two units engaged in filtering lubricant oil were granted irregular eligibility certificate for tax exemption of Rs. 70.65 lakh.

(b) A unit engaged in manufacture of detergent cake and powder was granted eligibility certificate for manufacture of goods namely comboded cake and powder under diversification scheme in September 2000. Since the comboded cake and powder are also detergents and are of same nature as detergent cake and powder, the exemption granted was incorrect. Another unit engaged in the manufacture of soft drinks was also granted eligibility certificate under diversification scheme in April 1996 for manufacture of fruit juice (Slice) which is also a soft drink. As such the exemption

allowed in these two cases was incorrect and resulted in incorrect grant of exemption of Rs. 8.06 crore.

### 2.2.6 Excess grant of exemption from Tax

As per notification dated 31 March 1995, exemption/reduction in rate of tax on sale of goods manufactured in a unit which has undertaken expansion/modernisation and diversification on or after 1 April 1995 but not later than 31 March 2000 shall be limited to the additional Fixed Capital Investment (FCI).

During the audit of two Trade Tax Circles, (Ghaziabad and Meerut) it was noticed that three dealers were granted (September 1995 and September 2000) eligibility certificate for diversification and exemption for Rs. 24.51 crore, whereas the exemption was to be limited to additional FCI of Rs. 16.17 crore. This resulted in excess grant of tax exemption of Rs. 8.34 crore.

### 2.2.7 Incorrect Concessions

The U.P. Trade Tax Act, 1948 and notification dated 31 March 1995 issued thereunder provide that tax on the sale of finished goods/products of the exempted units shall be computed at the general rate of tax leviable under the Act, and adjusted accordingly against the exemption limits.

In three Trade Tax Circles, (Allahabad, Ghaziabad and Lucknow) it was noticed (October 2001) that five dealers holding eligibility certificate, sold the manufactured goods at concessional rate of tax against various declaration forms and the assessing authority adjusted the tax against the exemption limits instead of at prevalent rate of tax. This resulted in short adjustment of tax amounting to Rs. 3.02 crore as detailed below:

(Rupees in lakh)

Sl. No.	Name of the unit	Assessment Year	Tax payable at normal rate	Tax paid at concessional rate	Short levy of tax
1	2	3	4	5	6
1.	A.C.(A)-6 Lucknow	1995-96 to 1998-99	170.87	62.30	108.57
2.	A.C.(A)-12 Lucknow	1997-98 to 1998-99	83.00	16.55	66.45
3.	T.T.O. XI Lucknow	1997-98 to 1998-99	00.50	00.13	0.37
4.	T.T.O. VII Allahabad	1997-98 to 1998-99	27.66	6.91	20.75
5.	A.C.(A)-I Ghaziabad	1998-99 to 1999-2000	161.00	55.25	105.75
	<b>Total</b>		<b>443.03</b>	<b>141.14</b>	<b>301.89</b>



### ***2.2.8 Grant of exemption with retrospective effect***

Under Section 25 of the Act, where the Government is satisfied that it is necessary so to do in public interest, it may issue a notification to make it effective from a date not earlier than six months from the date of such notification.

The Commissioner of Trade Tax vide circular dated 17 October 2001 exempted exporters of carpets from the levy of tax and interest thereon on the purchase of carpets from the unregistered dealers during the period from 1 October 1997 to 14 February 1999 which was in violation of the provision of the Act.

During the test-check of records of Trade Tax Officer, Bhadohi, it was noticed that twenty six exporters of carpets who purchased carpets valued at Rs. 7.71 crore from unregistered dealers during 1998-99 were exempted from levy of sales tax and interest of Rs. 96.45 lakh on the basis of Commissioner orders dated 17 October 2001. This resulted in irregular exemption of Rs. 96.45 lakh.

### ***2.2.9 Irregular grant of exemption***

(i) Notification dated 27 February 1997 provides that exemption shall be available upto a turnover of Rs.50 lakh only, in any assessment year to an institution against certificate issued by KVIC♦ or UPKVI© Boards. Certificate issued to an individual or firm shall not be eligible for availing exemption.

In the Trade Tax Circle, Kanpur, it was noticed (September 2001) that two dealers were issued certificate by UPKVI Board for manufacture and sale of specified products and were allowed exemption from tax during the years 1997-98 and 1998-99. As the dealers were partnership firms, the exemption of sales tax allowed to them was irregular. This resulted in loss of revenue amounting to Rs. 6.51 lakh.

(ii) During the audit of Trade Tax Circle, Lucknow, it was noticed (October-2001) that two dealers manufactured and sold washing soap valued at Rs. 81.68 lakh during 1998-99 without payment of tax. The assessing authority also exempted the goods from payment of tax treating it to have been covered under exemption granted by KVIC. The exemption granted was incorrect as no such certificate was issued either by KVIC or by District Gramodyog Adhikari, Lucknow. This resulted in incorrect exemption of tax of Rs. 6.13 lakh.

(iii) The manufacture and sale of footwear is not eligible for exemption, as this product is not specified in the schedule as Khadi and Village Industry.

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♦ KVIC - Khadi Village Industries Commission  
© UPKVI - Uttar Pradesh Khadi Village Industries

In Trade Tax Circle, Agra, it was noticed that a dealer holding certificate from U.P. Khadi Gramodyog department made a tax-free purchase of raw material to the tune of Rs. 71.28 lakh and manufactured footwear which were sold tax-free amounting to Rs. 95.01 lakh during the year 1998-99. The assessing authority while finalising the assessment (March 2001) did not levy tax treating it as tax-free purchase and sale. This resulted in non-levy of tax of Rs. 10.24 lakh on purchase and sale of goods.

(iv) Section 4-A of the Act, provides for exemption from/reduction in the rate of tax to the new industrial unit holding eligibility certificate on the sale of goods manufactured by it for specified period on the fulfilment of certain conditions.

During the audit of Trade Tax Circle, Lucknow it was noticed that a dealer was exempted from levy of tax on the sale of Rs. 15 crore of "self manufactured" asbestos sheet during 1998-99 for which the Industries Department had not issued any eligibility certificate. This resulted in the loss of revenue amounting to Rs. 1.88 crore.

#### ***2.2.10 Undue benefit due to Lacunae in Act /Rules/Notification***

Exemptions under Section 4-A of the Act, were introduced from time to time for the purpose of increasing the production of specified goods or for promoting development of specified industry in the State. Such incentives were introduced to motivate sustained growth and to generate employment for its inhabitants.

During Test-check, information collected in respect of 279 new units revealed that these units were closed either during the period of exemption or soon after availing of exemption. The units had already availed exemption of Rs. 115.81 crore between 1990-91 and 1999-2000. There was neither any deterrent provision in the Act and Rules to safeguard the fulfilment of objective nor any provision to recover the exempted amount in case the unit did not continue for certain period after the availment of the exemption. This led to undue benefit to the units.

#### ***2.2.11 Cross verification***

Under the Act and Rules made thereunder registered dealers are entitled to the purchase of goods free of tax or at the concessional rate, if the goods so purchased are for re-sale or for use in manufacture of goods for sale provided the purchasing dealer furnishes prescribed declaration forms to the selling dealers.

A cross verification of the declaration forms pertaining to the purchases made by two dealers of Gautam Budha Nagar, revealed that a dealer of A.C.(A) II, Trade Tax, Noida, sold natural gas valued at Rs. 333.78 crore at the concessional rate of tax against the declaration forms during 1998-99 but the selling dealer had accounted for Rs. 317.88 crore only in his accounts. Thus, the sale turnover of Rs. 15.90 crore escaped assessment, which resulted in short levy of tax amounting to Rs. 79.47 lakh.



### **2.2.12 Lack of internal control**

Test check of relevant registers, records, files and assessment cases related to exemption / concession revealed that the Trade Tax Department/Finance Department neither estimated nor worked out the financial impact and revenue that would have forgone due to exemption/concession. No mechanism was in position to detect incorrect and irregular exemptions granted to new industries. These clearly indicate that department failed to provide adequate internal controls in implementation of the prescribed procedure.

Data regarding total number of units which availed exemption, units that closed business, the amount of exemption allowed under the exemption schemes was not maintained. Consequently, the progress made in achievement of targets and objectives could not be ascertained.

### **2.2.13 Conclusion**

The scheme of exemption/concession was contemplated with the intention that these policies would enhance industrialization in the state especially in the backward areas. This scheme failed since a large number of industries were either closed during the period of exemption or soon after availing of exemption. As there was no penal provision in the U.P. Trade Tax Act to bring these industries to book, no action could be taken by the department against them. Ineligible/defaulting units had been allowed exemptions on one pretext or another. There existed no co-ordination between the Trade Tax Department and the departments issuing the eligibility certificates. There was poor and inefficient internal control. As a result, incorrect exemptions were granted leading to loss of tax revenue.

The matter was reported to Department and Government (July 2002); their replies have not been received (November 2002).

## **2.3 Reopening of Assessment orders under Section 30 of U.P. Trade Tax Act, 1948**

Section 30 of the U.P. Trade Tax Act, 1948 empowers the assessing authority to set aside an order of assessment passed ex-parte and reopen the same, provided the dealer applies to the assessing authority accompanied by satisfactory proof of the payment of admitted tax within 30 days of the service of the order, and the authority is satisfied that the applicant did not receive notice or was prevented by sufficient cause from appearing on the date fixed for hearing.

### **(A) Frequent use of provisions of Section 30**

Test check of records of six Assistant Commissioners (Assessment) and one Trade Tax Officer revealed that in the case of seven dealers, reassessments were made ex-



parte under Section 30 repeatedly (ranging between one time to seven times) during the years between October 1996 and June 2001. But the cases were still pending under this Section. This resulted in non-realisation of revenue of Rs. 45.29 crore for the period from March 1993 to March 1998 for the assessment years from 1987-88 to 1996-97 as detailed below:

(Rupees in lakh)

S. N.	Name of offices	Assessment Year	Date of exparte assessment order	Tax levied on exparte assessment	Date on which last reassessed under Section 30	Tax levied under Section 30	Amount of tax deposited	Non-realisation of revenue	How many times reassessed
1	2	3	4	5	6	7	8	9	10
1	A.C.(A)IX, Agra	1992-93	27.3.1996	13,512.01	7.2.2001	13,881.66	9738.18	4143.48	7 Times
2	AC(A)III, Lucknow	1991-92	31.3.1994	6.00	27.10.1996	6.00	--	6.00	5 Times
		1992-93	31.3.1994	6.00	27.10.1998	6.00	--	6.00	5 Times
		1996-97	22.3.1998	3.75	31.3.2000	3.75	--	3.75	2 Times
3	TTO XXI, Kanpur	1993-94	20.3.1996	16.00	30.12.2000	16.00	--	16.00	5 Times
		1994-95	27.3.1996	40.00	30.12.2000	40.00	--	40.00	5 Times
4	AC(A)V, Kanpur	1994-95	23.10.1997	22.80	7.6.2001	--	17.02	5.78	2 Times
		1995-96	21.11.1997	4.80	7.6.2001	--	1.46	3.34	2 Times
5	AC(A)V, Lucknow	1995-96	28.3.1998	49.50	25.1.1999	49.50	22.25	27.25	1 Time
6	A.C.(A) III, Lucknow	1990-91	25.5.1993	49.69	29.1.1998	49.69	--	49.69	6 Times
		1992-93	25.5.1993	89.49	27.1.1998	89.49	--	89.49	5 Times
		1993-94	12.3.1997	38.25	14.3.2000	38.25	--	38.25	4 Times
		1995-96	30.3.1998	37.50	15.3.2000	37.50	--	37.50	4 Times
		1996-97	30.3.1998	37.50	15.3.2000	37.50	--	37.50	2 Times
7	AC (A) V, Lucknow	1987-88	31.3.1993	13.60	26.12.2000	10.20	0.55	9.65	6 Times
		1988-89	31.3.1993	6.80	26.12.2000	4.86	0.05	4.81	5 Times
		1989-90	19.3.1994	5.45	21.12.2000	3.86	--	3.81	5 Times
		1990-91	29.3.1995	2.93	27.12.2000	1.98	--	1.98	5 Times
		1991-92	21.3.1996	2.79	27.12.2000	2.20	--	2.20	5 Times
		1992-93	21.3.1996	2.96	26.12.2000	2.08	--	2.08	5 Times
Total								4528.61	

### (B) Irregular reopening of cases

Under the provisions of Section 30 of the Act, a dealer having deposited his admitted tax may apply to the assessing authority within 30 days of the service of the order to set aside an order passed ex-parte and if such authority is satisfied it may set aside the order and reopen the case for hearing.

Test check of records of 2 Trade Tax Offices revealed that the assessing officers admitted the cases for reopening under Section 30 though the admitted tax had not been paid in full by the dealers. This resulted in loss of revenue of Rs. 53.72 lakh, as detailed below:

(Rupees in lakh)

Sl. No.	Name of offices	No. of dealers	Year of assessment	Admitted tax due	Admitted tax paid	Tax levied on ex-parte assessment	Tax levied u/s 30	Loss of revenue
1	AC (A) XIX, Kanpur	One	1994-95 1995-96	13.12 28.81	12.13 28.42	14.96 69.25	13.12 28.81	1.84 40.44
2	AC (A) XIX, Kanpur	One	1998-99	0.33	0.24	7.00	0.73	6.27
3	TTO Sector-I, Jhansi	One	1997-98	0.08	0.07	5.25	0.08	5.17
	<b>Total</b>			<b>42.34</b>	<b>41.86</b>	<b>96.46</b>	<b>42.74</b>	<b>53.72</b>

On this being pointed out in audit, the department replied (June 2001 and March 2002) that these cases were opened in accordance with the provisions of Section 30. The reply is not tenable as the admitted tax was not deposited in full.

## 2.4 Short levy of tax

### (A) Misclassification of goods

Under the U.P. Trade Tax Act, 1948 (Act), tax is levied as per the schedule of rates notified by the Government from time to time.

During audit of 7 Trade Tax Offices, it was noticed (between January 1998 to November 2001) that due to misclassification of goods, correct rate of tax was not applied which resulted in short levy of tax amounting to Rs. 64.79 lakh (including of additional tax) as detailed below:

(Rupees in lakh)

S. N.	Name of Offices	Assessment Year	Nature of misclassification	Taxable turnover	Rate of tax leviable (percent)	Rate of tax levied (Percent)	Tax short levied
		Month of assessment					
1	2	3	4	5	6	7	8
1	A.C.(A)-3, T.T., Varanasi	1996-97 February 1999	Mineral water classified as water	12.18	10	Nil	1.22



(Rupees in lakh)

1	2	3	4	5	6	7	8
2	T.T.O., Sector-4, Agra	1992-93 to 1993-94 July 1996	A.D.V. hubs classified as agricultural implement	10.42	10	Nil	1.04
3	T.T.O. Sector-3, Varanasi	1996-97 to 1997-98 December 1999	Raw silk classified as fabrics	483.42	10	Nil	48.34
4	T.T.O., Sector-I, Allahabad	1994-95 to 1995-96 March 1998	Tendu leaves classified as leaves	4.40 15.58	12.5 15	Nil Nil	0.55 2.34
5	A.C.(A)-8, T.T., Kanpur	1998-99 March 2001	Plastic bags exempted from levy of tax	65.97	10	Nil	6.60
6	T.T.O., Sector-3, Agra	1998-99 March 2001	P.V. leather cloth treating it as textiles	31.33	10	Nil	3.13
7	A.C.(A)-I, T.T., Bareilly	1998-99 February 2001	Toffee classified as sweetmeat	31.37	10	5	1.57
			<b>Total</b>	<b>654.67</b>			<b>64.79</b>

On this being pointed out in audit (between January 1998 and December 2000) the department revised (March 1999) the assessment in one case and levied tax of Rs. 1.04 lakh. No reply had been received in other cases.

The matter was reported to the department and the Government (between December 1998 and September 2001); their replies have not been received (November 2002).

### (B) Application of incorrect rate of tax

(i) During audit of 10 Trade Tax Offices, it was noticed (between March 1998 and November 2001) that while finalising assessments (between March 1996 to March 2001) the assessing officer levied tax at incorrect rate. This resulted in short levy of tax amounting to Rs. 71.57 lakh as per details given below:

(Rupees in lakh)

S. N.	Name of Offices	Assessment year Month of Assessment	Name of commodity	Taxable turnover	Rate of tax leviable (percent)	Rate of tax levied (Percent)	Tax short levied
1	2	3	4	5	6	7	8
1	T.T.O. Sector-6, Varanasi	1993-94 to 1994-95 March 1996	Scents and perfumes	35.67	15	10	1.78
2	A.C.(A)-6, T.T., Lucknow	1998-99 February 2001 1994-95 to 1995-96 May 1997	Fax Machine Cell phone Medicine	123.60 95.00	7.5 10	5 7.5	3.09 2.37



(Rupees in lakh)

1	2	3	4	5	6	7	8
3	A.C.(A)2, T.T., Bareilly	1998-99 February 2001	Cement	28.22	12.5	10	0.71
4	A.C.(A)-I, T.T., Lucknow	1993-94 March 2000	Cream and skimmed Milk powder	69.02	5	Nil	3.45
5	T.T.O., Sector-2, Ballia	1996-97 October 1998	Insecticides	22.65	10	7.5	0.57
	T.T.O., Sector-2, Ballia	1996-97 March 1999	Plastic pipes	5.08 4.28	10 10	4 5	0.30 0.22
6	A.C.(A)-2, Trade Tax, Rampur	1997-98 February 2000	Xerox & Fax machine Stablizer	1737.67 49.00	7.5 5	5 2.5	43.44 1.23
7	A.C.(A)-I, T.T., Noida	1998-99 March 2001	Chilling plant	17.98	15	7.5	1.35
8	A.C. (A)-8, T.T., Kanpur (3 dealers)	1999-2000 November 2000 1998-99 June 2000	Makhana S.W.Pipe	39.98 22.51	12.5 15	10 10	1.00 1.13
9	A.C.(A) T.T., Deoria	1996-97 to 1997-98 February 1999	Atta, Maida, Suji	218.91	2.5	.....	5.47
10	A.C.(A), T.T., Mirzapur	1998-99 January 2001	Coal briquettes	136.51	4	.....	5.46
			<b>Total</b>	<b>2605.58</b>			<b>71.57</b>

On this being pointed out in audit (between March 1998 and November 2001), the department accepted (between September 1998 & December 2001) the under assessment of Rs. 10.75 lakh in 5 cases and raised demands of Rs. 10.75 lakh.

The matter was reported to the department and Government (between May 1998 to May 2002); their replies have not been received (November 2002).

(ii) Under Section 8 (2-A) of the Central Sales Tax Act, goods taxable at the rate less than 4 per cent are taxable at the State rates for their inter-state sales. The provisions of Section 8(5) of the Central Act are not extended to reduce the rates of tax regulated under Section 8 (2-A). Further, electronic goods are taxable at the rate of 2.5 per cent from 1 October 1994 under the Act.

In the course of audit of records of 2 Trade Tax Offices, it was seen (December 2001) that the inter-state sale of electronic goods taxable at the rate of 2.5 per cent under Section 8 (2-A) was assessed at the rate of 2 per cent involving underassessment of Rs. 1.64 crore as detailed below:

(Rupees in lakh)

Sl. No.	Unit	Name of commodity	Year Month of assessment	Turnover	Rate of tax leviable	Rate of tax levied	Short-levied
1.	A.C.(A) Gautam Buddha- Nagar	Electronic goods	1998-99 (February 2001)	31565.40	2.5%	2%	157.83
2.	AC (A) III T.T. Noida	Electronic goods	1997-98 (March 2001)	581.17	2.5%	2%	2.91
3.	--do--	Electronic goods	1998-99 (June 2001)	327.14	2.5%	2%	1.64
4.	A.C.(A) Gautam Buddha- Nagar	Electronic goods	1998-99 (March 2001)	188.54	2.5%	2%	0.94
5.	AC (A) III T.T. Noida	Electronic goods	1995-96 (April 2000)	49.20	2.5%	2%	0.24
	<b>Total</b>						<b>163.56</b>

On the omission being pointed out in audit the Department replied that the tax had correctly been levied in view of Government Notification dated 10 October 1995 which is not tenable as the notification issued by the Government was irregular as the goods bearing rate of tax below 4 per cent are taxable at the rate of State rates under Section 8(2-A). The Government has, however, accepted the audit objection (March 2002).

### (C) Non - levy of tax due to irregular notification

Under Section 8 (2-A) of the Central Sales Tax Act, the goods taxable at rates less than 4 per cent are taxable at the State rates for their inter-state sales. The provisions of Section 8(5) of the Central Act are limited to Section 8(1) and 8(2) and can not be extended to reduce the rates of tax regulated under Section 8 (2-A). Thus, the Govt.



Notification dated 31 March 1993 which exempted the inter-state sale of atta, maida and suji manufactured from tax paid wheat was not in conformity with the provisions of the Act, as these goods were made from tax paid wheat and were chargeable to tax at the rate of 2.5 per cent under the State Act.

In the course of audit of records of the Trade Tax Offices at Agra, Kanpur and Mughal-sarai, it was noticed that dealers had made inter-state sale of atta, maida and suji on which no tax was levied under the Government notification referred to above. The issue of irregular notification led to loss of revenue amounting to Rs.5.26 crore as detailed below:

(Rupees in lakh)

Sl. No.	Unit	Name of commodity	Year Month of assessment	Turn over	Rate of tax leviable	Rate of tax levied	Short-levy
1	2	3	4	5	6	7	8
1.	AC (A) I, T.T. Kanpur	Atta, Maida and Suji	1996-97 (December 1998)	555.97	2.5%	Nil	13.90
2.	--do--	Atta, Maida and Suji	1998-99 (May 2000)	201.52	2.5%	Nil	5.04
3.	AC (A) V, T.T. Kanpur	Atta, Maida and Suji	1994-95 (November 1998)	384.14	2.5%	Nil	9.60
4.	AC (A) IX, T.T. Agra	Atta, Maida and Suji	1996-97 (September 1998)	20.04	2.5%	Nil	0.50
5.	--do--	Atta, Maida and Suji	1997-98 (March 1999)	22.00	2.5%	Nil	0.55
6.	AC (A), T.T. Mughalsarai	Atta, Maida and Suji	1997-98 (March 2000)	6181.60	2.5%	Nil	154.54
7.	--do--	Atta, Maida and Suji	1998-99 (February 2001)	8841.96	2.5%	Nil	221.04
8.	--do--	Atta, Maida and Suji	1997-98 (February 2000)	3468.11	2.5%	Nil	86.70
9.	--do--	Atta, Maida and Suji	1999-2000 (March 2001)	1361.21	2.5%	Nil	34.03
	<b>Total</b>						<b>525.90</b>



On this being pointed out in audit all the assessing officers have replied that the assessment orders have been passed under the Govt. Notification dated 31 March 1993, which is not tenable in audit as the aforesaid notification was issued contrary to the provisions of Section 8 (2A) of the Central Sales Tax Act 1956 as clarified above.

## **2.5 Non-levy of purchase tax**

Under Section 3AAAA of the Act, every dealer who purchases any goods from any person other than a registered dealer, whether tax is payable or not by such person, shall be liable to pay purchase tax on the purchase of such goods at the same rate at which tax is payable on the sale of such goods.

During audit of seven<sup>▲</sup> Trade Tax Offices, it was noticed (between May 2000 and November 2001) that 14 dealers purchased timber and paddy valued at Rs. 2.28 crore from unregistered dealers during the years 1997-98 and 1998-99 without payment of tax of Rs. 29.51 lakh. The assessing officers while finalising the assessments (between September 1999 and March 2001) failed to levy the tax. This resulted in non-levy of tax of Rs. 29.51 lakh.

On this being pointed out in audit (between May 2000 to November 2001) the assessing officer revised the assessments in 3 cases and levied purchase tax amounting to Rs. 7.19 lakh. The department stated that tax on sale of timber is leviable at the point of manufacture or import only from 1 December 1998 vide notification dated 23 November 1998. Hence purchase tax on timber was not leviable before 1 December 1998. The reply of the department is not tenable as the above notification deals with firewood and not timber.

The matter was reported to the department / Government (between July 2001 and March 2002); their replies have not been received (November 2002).

## **2.6 Non-levy of additional tax**

Under the Uttar Pradesh Trade Tax Act, 1948, every dealer liable to pay tax is required to pay additional tax also at the rate of 25 per cent of tax with effect from 1 August 1990 on purchase and sale of goods.

During audit of Trade Tax Officer, Sector-4, Varanasi, it was noticed (July 2001) that a dealer purchased woollen carpets valued at Rs. 7.28 crore from unregistered dealers during the years 1997-98 and 1998-99 and though the tax was levied, additional tax was not levied. This resulted in non-levy of additional tax amounting to Rs. 18.22 lakh.

The case was reported to the department and the Government (August 2001 and June 2002); their replies have not been received (November 2002).

<sup>▲</sup> Ambedkar Nagar, Gonda, Hardoi, Kanpur, Pilibhit, Sitapur and Varanasi.

## **2.7 Short levy of Central Sales Tax**

Under Central Sales Tax Act, 1956, tax on inter-state sale of goods not covered by declaration in Form 'C' or 'D' is leviable at the rate of 10 per cent or at the rate applicable to the sale or purchase of such goods inside the State whichever is higher.

During audit of 5 Trade Tax Offices\*, it was noticed (between December 1997 and November 2001) that tax was levied at incorrect rate on inter-state sale of goods valued at Rs. 3.20 crore not covered by declaration in Form 'C' or 'D'. This resulted in short levy of tax amounting to Rs. 19.13 lakh.

On this being pointed out in audit (between December 1997 and November 2001), the department stated (March 2002 and May 2002) that it had raised additional demand of Rs. 15.16 lakh (between March 1998 and February 2002) in three cases. The reply in other cases is awaited.

The matter was reported to the department and Government (between August 1999 and December 2001); their replies have not been received (November 2002).

## **2.8 Non-levy of interest**

Under the Act, every dealer liable to pay tax is required to deposit the amount of tax due within the time prescribed. The tax admittedly payable by the dealer, if not paid by the due date, attracts interest at the rate of 2 per cent per month from the due date and upto the date of deposit.

(A) During audit of 6 Trade Tax Offices<sup>©</sup> it was noticed (between June 1999 and October 2001) that admitted tax amounting to Rs. 1.74 crore was deposited by the dealer after delay ranging from 10 months to 157 months, on which interest amounting to Rs. 1.18 crore was leviable but was not levied.

On this being pointed out in audit (between June 1999 and October 2001), the department levied interest amounting to Rs. 0.37 crore in 2 cases only (between July 2000 and December 2001). The reply in other cases is awaited (November 2002).

(B) During audit of A.C. (A), Gonda, it was noticed (August 2001) that admitted tax amounting to Rs. 0.43 crore was assessed by the department for the year 1988-89 in July 2000 but it was not deposited upto the date of audit (August 2001). Interest amounting to Rs. 1.34 crore (August 1988 to August 2001) was leviable for 157 months but the same was not levied.

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\* Agra, Bareilly, Hapur, Mau and Noida

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On this being pointed out in audit (August 2001), the department levied interest amounting to Rs. 1.16 crore in December 2001. Against this order the assessee had gone in appeal, stay has been granted by the Deputy Commissioner Appeal, Bahraich (November 2002).

The cases were reported to the department and the Government (between August 1999 to December 2001); their replies have not been received. (November 2002 ).

## **2.9 Misuse of declaration forms**

Section 3-B of the Act provides that in the event of issue of false or wrong declaration Forms, the dealer shall be liable to pay a sum equal to the amount which would have been payable as tax on such transaction had such certificates or declaration not been issued.

During audit of 4 Trade Tax Offices<sup>©</sup>, it was noticed (between June 1997 and December 2001) that 4 dealers holding recognition certificate for the manufacture of certain notified goods, had purchased raw materials, processing materials etc., free of tax or at concessional rate of tax by issuing wrong declarations during the period from 1996-97 to 1999-2000. But they were not authorised in their recognition certificate to purchase these goods. The dealers were, therefore, liable to pay tax of Rs. 22.56 lakh.

On this being pointed out in audit (between June 1997 to December 2001), the department stated that demand of Rs. 20.38 lakh had been raised in three cases between September 1997 and March 2001. No reply had been received in the other case (November 2002).

The matter was reported to the Department/Government (between November 2001 and March 2002); their replies have not been received (November 2002).

## **2.10 Non-levy of tax on turnover escaping assessment**

Under the Trade Tax Act, tax is levied as per schedule of rates as notified by the Government from time to time. Besides this, additional tax at the rate of 25 per cent of tax is also leviable from 1 August 1990.

During the audit of 6 Trade Tax Offices<sup>φ</sup>, it was noticed (between July 1998 and August 2001) that turnover amounting to Rs. 3.80 crore for the period from 1993-94 to 1998-99 in respect of 7 dealers was not taken into account while finalising assessment (between December 1997 and March 2001) by the assessing officer. This resulted in short-levy of tax amounting to Rs. 46.10 lakh.

© Koshikalan (Mathura), Meerut, Moghulsarai and Varanasi.

φ Agra , Aligarh, Chandpur (Bijnore), Gonda, Fatehgarh and Lalitpur.



On being pointed out (between July 1998 and August 2001) in audit, the department has raised the demand of Rs. 1.21 lakh in two cases. No reply has been received in other cases (November 2002).

The matter was reported to the department and the Government (between December 1998 and October 2001); their replies have not been received (November 2002).

## **2.11 Incorrect Exemption**

(A) Under Section 4-A of the U.P. Trade Tax Act, 1948, a unit engaged in the manufacture of goods and holding an eligibility certificate, is entitled to exemption or reduction in the rate of tax. It is judicially<sup>φ</sup> held that the grinding of mineral chips or crystal into mineral powder does not alter the nature of commodity and does not amount to manufacture.

During audit of Assistant Commissioner (Assessment) Trade Tax, Koshi Kalan (Mathura), it was noticed (between September 2000 and December 2001) that a dealer sold borax powder after grinding borax pieces (penta) during the period 1994-95 to 1998-99 on which he availed benefit of exemption from tax amounting to Rs. 39.74 lakh upto 1998-99. Since the grinding of borax pieces into borax powder is not manufacture, this resulted in incorrect exemption of tax amounting to Rs. 39.74 lakh.

The case was reported to the department and the Government (between January 2001 and February 2002); their replies have not been received (November 2002).

(B) Under Section 4-A of the U.P. Trade Tax Act, 1948 read with Government Notification dated 27 July 1991, a new unit (established between 1 April 1990 and 31 March 1995) holding eligibility certificate is entitled to the facility of exemption from or reduction in the rate of tax upto the specified period and monetary limit of the sale of goods.

During the audit of 2 Trade Tax Offices\* (between December 1998 and October 2001), it was noticed that in the case of 4 dealers, tax liability amounting to Rs. 9.39 lakh during the period from 1994-95 to 1998-99 was not worked out and adjusted against the prescribed monetary limit. This resulted in irregular exemption of Rs. 9.39 lakh.

On this being pointed out in audit (between December 1998 and October 2001) the department levied tax of Rs. 7.44 lakh and adjusted it against the exemption limit.

The cases were reported to Government (between May 2001 and February 2002); replies have not been received (November 2002).

<sup>φ</sup> (1980) 46 STC 208 (All) M/s Mineral Sales Corporation (1990) 79 STC 156 (MP)

<sup>▲</sup> Commissioner of Sales Tax U.P. V/s M/s Lal Kunwa Stone Crusher (P) Ltd. Etc. (STI) March 2000 SC - 53)

<sup>▲</sup> (1) T.T.O., Sector-2, Deoria (2) A.C.(A), Bharthana, (Etawah)

## 2.12 Non-levy of penalty

(A) Under Section 4-B (5) of the Act, read with Government Notification dated 21 May 1994, manufacturers are allowed to purchase raw materials, packing materials etc. required for use in the manufacture of notified goods for sale within the State without payment of tax or at the concessional rate. In case the raw materials or goods are disposed of for the purpose other than that for which recognition certificate was granted, the dealer shall be liable to pay by way of penalty, a sum which shall be not less than the amount of relief in tax so secured by him, but not more than three times of such relief.

During audit of 4 Trade Tax Offices<sup>∞</sup>, it was noticed (between May 1999 and October 2001) that 4 dealers holding recognition certificates for the manufacture of notified goods, purchased raw materials for Rs. 100.79 crore tax free/at concessional rate during the period from 1994-95 to 1998-99 and got relief in tax to the tune of Rs.5.12 crore. Since the raw material was utilized for generation of electricity instead of manufacture of fertilizer and goods were sent out of state on consignment basis, the dealers were liable to pay a minimum penalty of Rs. 5.12 crore.

The matter was reported to the department and Government (between August 1999 and February 2002); their replies have not been received (November 2002).

(B) Under the Central Sales Tax Act, 1956, a registered dealer may purchase goods from a dealer of another state at concessional rate of tax by furnishing declaration in Form 'C' provided such goods have been specified in his certificate of Registration. In case the dealer purchases goods not covered by registration certificate on the basis of declarations, penalty not exceeding one and a half times of the amount of tax is leviable.

During test check of records of 18 Trade Tax circles<sup>▲</sup>, it was noticed (between September 1996 and December 2001), that 19 dealers had purchased goods valued at Rs. 5.71 crore against declaration in Form 'C' not covered by their certificates of registration, during the period between 1992-93 and 1998-99. Thus, penalty amounting to Rs. 89.44 lakh though leviable was not levied resulting in short realisation of government revenue to that extent.

On this being pointed out in audit, the department stated (between July 1999 and September 2001) that penalty amounting to Rs. 13.40 lakh had been imposed (between July 1999 and August 2001).

The cases were reported to the department and Government (between April 1998 and March 2002); their replies have not been received (November 2002).

<sup>∞</sup> Badaun, Bulandshaher, Khurja and Noida.

<sup>▲</sup> Agra, Bharthana, Deoria, Fatehpur, Hathras, Jhansi, Kanpur (4), Mathura, Meerut (2), Noida, Varanasi, Unnao (2), Shahjahanpur



### **2.13 Non-imposition of penalty**

(A) Under Section 15-A (1) (C) of the Act, if the assessing authority is satisfied that a dealer has concealed his turnover or has deliberately furnished incorrect particulars of such turnover, he may direct that such dealer shall pay by way of penalty, in addition to tax, a sum not less than 50 per cent but not exceeding 200 per cent of the amount of tax which would thereby have been avoided.

During test check it was noticed (between December 1999 and February 2000) in the offices of one Assistant Commissioner (A) and two Trade Tax Officers (A) that in the case of three dealers who had suppressed/concealed the turnover, the department levied tax of Rs. 13.68 lakh but no penalty was imposed, though the dealers were liable to pay a minimum penalty of Rs. 6.84 lakh. This resulted in non-levy of penalty of Rs. 6.84 lakh.

On this being pointed out in audit (between December 1999 and February 2000), the department imposed penalty of Rs. 5.42 lakh in two cases.

The cases were reported to the department and the Government (between May 2001 and April 2002); their replies have not been received (November 2002).

(B) Under Section 8-D (6) of the Act, every person responsible for making payment to any contractor for discharge of any liability on account of valuable consideration payable for the transfer of property in goods in pursuance of works contract, shall deduct an amount equal to 4 per cent of such sum payable under the Act on account of such works contract. If any person fails to deposit the amount so deducted before the expiry of month following the month in which the deduction was made, the Assessing Authority may direct that such person shall pay by way of penalty, a sum not exceeding twice the amount so deducted.

During test check in audit it was noticed (between October 1998 and October 1999) in the offices of two Trade Tax Officers<sup>#</sup> (A) that 2 dealers deducted tax of Rs. 7.02 lakh from the contractors during the year 1996-97 but did not deposit the same into Government Treasury, within time prescribed, but the assessing authority did not levy the penalty of Rs. 14.04 lakh. Thus, Government sustained loss of revenue of Rs. 14.04 lakh.

On this being pointed out (between October 1998 and October 1999), the department levied penalty amounting to Rs. 1.63 lakh in case of one dealer.

The cases were reported to the department and the Government (between December 1998 and March 2001); their replies have not been received (November 2002).

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<sup>#</sup> Allahabad and Badaun.



### 2.14 Loss of revenue due to irregular adjustment of tax realised in excess from the customers

Under Section 29-A (3) of the Act, excess tax realised by the dealer from the customers which has been deposited into the treasury can only be refunded to the customers from whom it was realised by the dealer in the manner prescribed. It has judicially\* been held that it could not be adjusted against outstanding demand of the aforesaid dealer.

During audit of Assistant Commissioner (Assessment)-2, Trade Tax, Varanasi, it was noticed (June 2001) that a dealer had realised excess tax amounting to Rs. 32.56 lakh from the customers on sale of cement during the year 1997-98. This excess tax was adjusted by the dealer against his demand of tax of March 1998 instead of refunding the same to the customers. This resulted in loss of revenue of Rs. 32.56 lakh.

The case was reported to the department and the Government (September 2001); their replies have not been received (November 2002).

### 2.15 Short-levy of tax due to computation mistake

During the audit of 4 Trade Tax Offices, mistakes were noticed in computation of tax which resulted in short-levy of tax amounting to Rs. 5.28 lakh. Details are given in the table below:

(Rupees in lakh)

Sl. No.	Name of Office	Assessment year	Taxable Turnover	Tax leviable	Tax levied	Tax short levied
		Month of Assessment				
1	Assistant Commissioner (Assessment) Trade Tax, Karvi, Chitrakut	1997-98 May 2000	20.33	0.81	0.21	0.60
2	Assistant Commissioner (Assessment) Trade Tax, Sikandrabad	1996-97 March 1999	45.62	2.11	1.11	1.00
3	Trade Tax Officer, Najibabad	1996-97 March 1999	96.93	3.88	3.08	0.80
4	Trade Tax Officer, Sector-I, Jaunpur	1998-99 March 2001	80.00	3.20	0.32	2.88
	<b>Total</b>		<b>242.88</b>	<b>10.00</b>	<b>4.72</b>	<b>5.28</b>

\* Commissioner of Trade Tax, U.P., V/s Kumar Aluminium Industry [(Sales Tax Revision No. 758 of 1994 decided on dated 3.11.1999 (STI 2000 - Allahabad H-C-58))]

On this being pointed out in audit (between November 1999 to October 2001) the Department rectified the mistakes and raised additional demand of Rs. 4.68 lakh in two cases.

The cases were reported to the department and Government (between January 2000 and May 2002); their replies have not been received (November 2002).



## CHAPTER - 3 : STATE EXCISE DEPARTMENT

### 3.1 Results of Audit

Test check of records of State Excise Offices conducted in Audit during the year 2001-2002 revealed non / short levy of duties/ fees amounting to Rs. 47.26 crore in 170 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Excess Transit / storage, wastage	16	9.81
2	Short levy of export pass fee	9	1.79
3	Non-levy of interest	14	1.30
4	Non-levy of compounding fee / penalty	57	11.13
5	Other irregularities	74	23.23
	<b>Total</b>	<b>170</b>	<b>47.26</b>

During 2001-2002 the department recovered under assessment etc. of Rs. 4.99 crore involved in 27 cases.

A few illustrative cases involving financial effect of Rs. 17.28 crore are given in the succeeding paragraphs:

### 3.2 Low production of alcohol from molasses

Under the U.P. Excise Working of Distilleries (Amendment) Rules, 1978, the output of alcohol from every quintal of fermentable sugar present in the molasses is 52.5 alcoholic litre (AL). Failure to maintain the minimum yield of alcohol from molasses consumed entails cancellation of licence and forfeiture of security deposit of the distiller concerned in addition to any other penalties leviable under the Act. For this purpose composite samples of molasses are required to be drawn by the officer incharge of the distillery and sent for examination to the Alcohol Technologist. Alcohol Technologist is required to send his report to concerned officer incharge of the distillery, within a month from the date of receipt of such samples.

During audit of 13 Distilleries<sup>▲</sup>, it was noticed (between February 1999 and July

▲ Captanganj (Kushinagar), Dhampur (Bijnor), Gajraula (J.B. Nagar), Ghosi (Mau), Gola (Lakhimpurkheri), Gonda, Kayamganj (Farrukhabad) Masaudha (Faizabad), Mansoorpur (Muzaffar Nagar), Moradabad, Nanpara (Bahraich), Pilakhni (Saharanpur) & Syohara (Bijnor).

2001) that 96 composite samples of molasses were sent to Alcohol Technologist during the year 1998-99 to 2001-2002 for examination. On the basis of the reports of the Alcohol Technologist regarding the quantity of fermentable sugar present in the samples, the production of alcohol should have been 28309170.34 AL instead of 24567442.20 AL actually produced. Thus production of alcohol was short by 3741728.14 AL involving loss of excise duty amounting to Rs. 17.12 crore as per annexure 'A'.

The cases were reported to the Department and Government (between June 1999 and January 2002); their replies have not been received (December 2002).

### **3.3 Non levy of interest on belated payments**

Under the provisions of U.P. Excise Act, 1910, as amended (March 1985) in case excise revenue is not paid within three months from the due date, interest at the rate of 18 per cent per annum is recoverable from the date it becomes payable, upto the date of realisation. In respect of excise revenue which had become payable prior to the date of amendment in the Act and is not paid within three months of the date of amendment, interest is to be charged from 29 March 1985.

During the audit of seven District Excise Offices<sup>©</sup>, it was noticed (between November 1999 and November 2001) that excise revenue of Rs. 10.13 lakh was deposited (between March 1996 to May 2001) late by a period ranging from 64 to 198 months. However, interest amounting to Rs. 15.98 lakh on the belated payments was not levied and realised by the department.

The cases were reported to the department and the Government (between April 2000 and March 2002); their replies have not been received (December 2002).

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## CHAPTER - 4: TAXES ON VEHICLES, GOODS AND PASSENGERS

### 4.1 Results of Audit

Test check of records of various offices of the Transport Department, conducted in audit during 2001-2002 revealed short-levy or non-levy of taxes/fees amounting to Rs. 10.26 crore in 310 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Category	Number of cases	Amount
1	Non-levy or short-levy of passenger tax/additional tax	122	6.05
2	Under-assessment of road tax and goods tax	24	0.73
3	Other irregularities	164	3.48
	<b>Total</b>	<b>310</b>	<b>10.26</b>

During the year 2001-2002, the department accepted under-assessment etc. of Rs. 1.39 crore involved in 69 cases pointed out in audit in 2001-2002. Of these a sum of Rs. 2.37 lakh has been recovered.

A few illustrative cases involving Rs. 2.96 crore are given in the succeeding paragraphs.

### 4.2 Short levy of additional tax

Under the provisions of the Uttar Pradesh Motor Vehicles Taxation Act, 1997 effective from 9 November 1998, additional tax is leviable on city buses operating within the limits of a corporation or a municipal area, at the rate of Rs. 4200 and Rs. 6000 per quarter depending on the seating capacity of buses. In the case of buses plying outside the municipal/corporation area, i.e. in violation of permit condition, additional tax is leviable treating these as contract carriages.

During the audit of Regional Transport Offices, Kanpur City and Bareilly, it was noticed (between July 2000 and June 2001) that 137 buses (50 buses in Kanpur city and 87 in Bareilly) were operating beyond the limits of municipal area. However, the vehicles were paying additional tax applicable to city buses instead of rates applicable to contract carriages. This resulted in short levy of additional tax amounting to Rs. 1.74 crore for the period from November 1998 to June 2000.

The matter was reported to the department and Government (between December 2000 and February 2001); their replies have not been received (December 2002).

#### **4.3 Short levy of tax and additional tax**

As per para 1 (a) of fourth schedule of Uttar Pradesh Motor Vehicles Taxation Act, 1997, additional tax is leviable on a stage carriage operating within the limits of a corporation or a municipality (city bus), at the prescribed rate depending upon the seating capacity. Under explanation 1 of above provision, the seating capacity shall be calculated by adding fifty per cent of the allowed standing capacity to the full seating capacity.

During audit of Regional Transport Office, Kanpur City and Assistant Regional Transport Office, Bahraich it was noticed (July 2000 and September 2001) that 293 vehicles were plying as city buses and were paying tax and additional tax on their full seating capacity but their sanctioned standing capacity were not taken into consideration for levying additional tax as was required under the Act, during the period from November 1998 to September 2001 which resulted in short realisation of tax and additional tax amounting to Rs. 53.71 lakh.

The case was reported to the department and the Government (November 2001 and March 2002); their replies have not been received (December 2002).

#### **4.4 Non-assessment of additional tax**

Under the provisions of Section 6 of U.P. Motor Vehicles Taxation Act, 1997 and rules made thereunder, additional tax is to be charged on stage carriages including contract carriages. However, vehicles owned by recognised educational institutions have been exempted from payment of additional tax.

During the audit of offices of the Assistant Regional Transport Officer, Bahraich and Muzaffarnagar and Regional Transport Officer, Bareilly and Jhansi, it was noticed (between January 2001 and November 2001) that 18 vehicles which were used to carry children from their houses to schools and back during November 1998 to November 2001 were not registered in the name of recognised educational institutions. The additional tax was neither assessed nor realised by the department. This resulted in non-levy of additional tax amounting to Rs. 41.94 lakh.

The matter was reported to the department and the Government (between January 2001 and July 2002); their replies have not been received (December 2002).



#### **4.5 Non-levy/realisation of additional tax / Passenger tax**

Under the U.P. Motor Gadi (Yatrikar) Adhiniyam, 1962 and notification dated 21 November 1996, passenger tax in respect of maxi-cabs was fixed at the rate of Rs. 2350 per month. Thereafter, under U.P. Motor Vehicle Karadhan Adhiniyam, 1997 (effective from 9 November 1998) passenger tax was renamed additional tax and was payable at the rate of Rs. 1500 per month which has been enhanced by 10 per cent from 10 March 2000.

During the audit of Regional Transport Offices, at Bareilly, Varanasi and Kanpur, it was noticed (between July 2000 and June 2001), that in the case of 73 maxi cabs, passenger tax/ additional tax were neither assessed nor realised by the departments during the period from November 1996 to June 2001. This resulted in non-levy/realisation of passenger/additional tax amounting to Rs. 16.53 lakh.

The matter was reported to the department and the Government (between December 2000 and January 2002); their replies have not been received (December 2002).

#### **4.6 Loss of Revenue due to delay in circulation of Government notification**

As per Government notification dated 28 March 2001, the Central government enhanced the rates of licence fees, registration fees and fitness fees by amending Central Motor Vehicle Rules, 1989.

During the audit of four Regional/Sub-Regional Transport offices, (Kanpur City, Bareilly, Pratapgarh and Basti), it was noticed (between June 2001 and October 2001) that the department failed to realise fees at enhanced rates from 28 March 2001 to 29 April 2001. This resulted in loss of revenue to the extent of Rs. 9.33 lakh.

On this being pointed out in audit, the department stated (between June 2001 to October 2001) that the revised rates were levied from 30 April 2001 (from the date of receipt of orders). The reply of the department is not tenable as the enhanced rates were recoverable from the date of issue of order, i.e., from 28 March 2001.

The cases were reported to the department and the Government (between August 2001 and February 2002); their replies have not been received (December 2002).





## CHAPTER - 5 : STAMP DUTY AND REGISTRATION FEES

### 5.1 Results of Audit

Test check of the relevant records of District Registrars and sub-Registrars conducted in audit during 2001-2002 revealed, short-levy of stamp duty and registration fees amounting to Rs. 25.24 crore in 347 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Short levy of stamp duty and Registration fees due to under valuation of properties	175	2.02
2	Short levy of stamp duty due to misclassification of documents	88	0.75
3	Non-realisation of stamp duty	28	21.14
4	Other irregularities	56	1.33
	<b>Total</b>	<b>347</b>	<b>25.24</b>

A few illustrative cases highlighting important observations involving Rs. 21.36 crore are mentioned in the following paragraphs:

### 5.2 Short-levy of Stamp Duty and Registration Fees due to undervaluation of property

Under Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh) stamp duty on a deed of conveyance is chargeable on the market value of the agricultural land or on the value of consideration set forth therein, whichever is higher. Further, on a deed of conveyance pertaining to the land other than agricultural land, stamp duty is chargeable at the rate per square metre of that area on the date of execution as fixed by the collector.

During audit of 14 Sub-Registrar Offices, it was noticed (between May 2000 and December 2001) that 20 deeds of conveyance relating to non-agricultural land pertaining to the period August 1999 to September 2001 were registered for a consideration of Rs. 49.91 lakh at agricultural rates instead of Rs. 2.81 crore at non-agricultural rates

fixed by the collector. The adoption of lower valuation of land resulted in short levy of stamp duty and registration fees amounting to Rs. 22.29 lakh.

On this being pointed out in audit, the Sub Registrar accepted (From June 2000 to November 2001) the underassessment in seven cases and stated that the matter would be referred to the Collector for proper valuation.

The cases were reported to the department and the Government (between August 2001 and March 2002); their replies have not been received (December 2002).

### **5.3 Non-realisation of stamp duty**

Under the U.P. Excise licences (Tender cum Auction) Rules 1991, in case the licensing authority has accepted the bid for allotment of licences for sale of country / foreign liquor, an advance security shall be paid by the bidder for performance of the contract in the prescribed manner. Every bidder in whose favour the licence is settled shall also execute an agreement in conformity with the terms of licence on a stamp paper of the requisite value. In the Government notification dated 12 April 1999, it has been made clear that these documents fall under the category of mortgage deeds and are chargeable to stamp duty accordingly.

Scrutiny of records of 28<sup>▲</sup> District Excise Officers revealed (between August 2000 to October 2001) that on acceptance of bid for a licence to sell country / foreign liquor / bhang, the licensees deposited a security of Rs. 171.50 crore in cash for due performance of the contract during the years 1998-99, 1999-2000 and 2000-2001 and executed counterpart agreements. However, stamp duty amounting to Rs. 21.14 crore on the amount of security deposited in cash treating these agreements as mortgage deeds were neither levied nor realised resulting in non-realisation of stamp duty amounting to Rs. 21.14 crore.

On this being pointed out in audit, (between June 2000 to October 2001), District Excise Officers stated (April 1998 to March 2001) that necessary action would be initiated on receipt of instructions from the Excise Commissioner.

The matter was reported to the department and Government (between May 2001 and April 2002). The Government vide reply (September 2001) directed concerned Collectors to collect the relevant documents from District Excise officers and file a suit against concerned defaulters. Further, report in this connection is awaited (December 2002).

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▲ District Excise Officers - Auraiya, Azamgarh, Aligarh, Bahraich, Barabanki, Bijnore, Chitrakut, Etawah (2), Etah (2), Fatehpur, Farukhabad, Ghaziabad, Gorakhpur, Hathras, Kannauj, Kanpur Dehat, Kanpur City, Muzaffar Nagar, Mirzapur, Moradabad, Pilibhit, Pratapgarh, Rae Bareilly, Sant Kabir Nagar, Saharanpur, Sant Ravi Das Nagar.



## CHAPTER - 6 : LAND REVENUE

### 6.1 Results of Audit

Test check of records of various offices of the Land Revenue department conducted in audit during 2001-2002 revealed non/short realisation of land revenue, collection charges and other irregularities amounting to Rs. 13.73 crore in 158 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Non/short realisation of Land Revenue	38	9.61
2	Short/Non-realisation of collection charges	66	3.53
3	Non-recovery of fee for supplying of Kisan Bahis	24	0.41
4	Other irregularities	30	0.18
	<b>Total</b>	<b>158</b>	<b>13.73</b>

A sum of Rs. 11.70 crore has been recovered by the department during the year 2001-2002.

A few illustrative cases involving financial effect of Rs. 95.95 lakh are mentioned in the following paragraph:

### 6.2 Non-recovery of collection charges

As per Uttar Pradesh Public Money (Recovery of dues) Act, 1972 and Government orders issued from time to time, the revenue authorities on receipt of certificates of recovery from a corporation or banking company or local body, shall proceed to recover the amount stated therein, together with cost of proceedings (collection charges) as arrears of land revenue. Collection charges at the rate of 10 per cent of the dues collected/to be collected are to be realised from the concerned loanees. In case the requisitioning authority withdraws the certificate or the loanees deposit the dues directly with the requisitioning authority, the collection charges are recoverable.

During audit of 20 Tehsils and one Land Revenue Collection Office, it was noticed (between October 2000 and August 2001) that collection charges amounting to

Rs. 95.95 lakh were not realised in 382 cases in which either the amount was deposited directly by the loanees with the concerned bodies or recovery certificates were withdrawn by them.

The cases were reported to the Department and the Government (between January 2001 and July 2002); their replies have not been received (December 2002).



## CHAPTER - 7 : OTHER TAX RECEIPTS

### A. ELECTRICITY DUTY

#### 7.1 Results of Audit

Test check of accounts & relevant records of Assistant Directors (Electrical Safety) and Appointed Authorities conducted in audit during the year 2001-2002 revealed non-levy or short-levy of electricity duty amounting to Rs. 3.36 crore in 26 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Non-levy of electricity duty	14	3.28
2	Non-levy of interest	1	0.01
3	Non-levy of inspection fee	3	0.04
4	Non-levy of electricity duty on electricity consumed	8	0.03
	<b>Total</b>	<b>26</b>	<b>3.36</b>

During the year 2001-2002 the department accepted under assessment etc. of Rs. 43.81 lakh involved in 19 cases.

A few illustrative cases involving financial effect of Rs. 32.38 lakh are mentioned in the following paragraphs:

#### 7.2 Non-levy of Electricity Duty

Under the U.P. Electricity (Duty) Act, 1952 and the rules made thereunder, electricity duty is leviable on energy sold to a consumer at the rates notified by the State Government from time to time. The Government had clarified (August 1995) that in respect of energy supplied free of charge or at concessional rates to defence personnel by the Appointed Authorities (Defence Department), the rates for the purpose of calculation of electricity duty on energy consumed would be deemed to be full rate

applicable to other consumers.

During test check of records of four Appointed Authorities (i.e. three Garrison Engineers Offices and one Senior Zonal Electrical Engineer, Central Railway, Jhansi), it was noticed (between June 2000 and July 2001), that 159.01 lakh units of electrical energy was supplied to defence personnel and Railway staff for their domestic use between February 1999 and June 2001. But electricity duty was not levied. This resulted in non-levy of electricity duty amounting to Rs. 14.31 lakh.

The cases were reported to the Department and the Government (between May 2001 and December 2001); their replies have not been received (December 2002).

### **7.3 Non/Short levy of electricity duty**

Under the provisions of Indian Electricity Act, 1910 read with U.P. Electricity (Duty) Act, 1952 and the rules framed thereunder, a licensee is required to deposit in the Government Treasury, the amount of electricity duty payable by him within two months following the close of the month in which the meter reading was recorded. Where the electricity charges are realised in lump sum, the electricity duty at the rate of 20 per cent of such charges is leviable.

During the test check of the records of 3 offices<sup>▲</sup> it was noticed (between February 2001 and March 2001) that electric charges amounting to Rs. 94.11 lakh were realised from the employees of U.P. Electricity Board and G.S.V.M. College, Kanpur for domestic use of electric energy supplied to them between February 2000 and February 2001. But electricity duty amounting to Rs. 18.07 lakh was either not realised or realised short.

The matter was reported to the Department and the Government (between April 2001 and December 2001); their replies have not been received (December 2002).

## **B. ENTERTAINMENT AND BETTING TAX**

### **7.4 Results of Audit**

Test check of the records of various offices of the Entertainment Department conducted in audit during 2001-2002 revealed non/short-levy of taxes/fees amounting to Rs. 1.29

▲ Asstt. Director (Electrical Safety), Bijnore, Varanasi and Ganesh Shankar Vidyarthi Mahavidyalaya (GSVM), Kanpur



crore in 66 cases which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Category	Number of cases	Amount
1	Non-levy or non-recovery of entertainment tax/licence fee	19	0.43
2	Other irregularities	47	0.86
	<b>Total</b>	<b>66</b>	<b>1.29</b>

During the year 2001-2002 the Department accepted under assessment etc. of Rs. 0.22 crore in 16 cases pointed out in audit in 2001-2002 and recovered a sum of Rs. 0.23 crore which pertains to this year and earlier years.

A few cases involving financial effect of Rs. 14.14 lakh are mentioned in the following paragraphs:

### 7.5 Non - assessment of Entertainment Tax

Under the provisions of U.P. Entertainment and Betting Tax Act, 1979 read with U.P. Cable Television Network (Exhibition) Rules, 1997 and notification issued from time to time, Entertainment tax is to be charged at the rate of 30 per cent of admission fees.

During the audit of District Entertainment Tax Officer, Gautam Budha Nagar, it was noticed (October 2001) that a cable operator collected fees from 1092 connection holders at a rate of Rs. 60 per connection per month from April 1998 to October 2001 but did not pay the entertainment tax. This resulted in non-levy of entertainment tax of Rs. 6.50 lakh.

The matter was reported to the Department and Government (January 2002 and February 2002); their replies have not been received (December 2002).

### 7.6 Non-realisation of unutilised amount of maintenance charges

Under the Uttar Pradesh Entertainment and Betting Tax, Act 1979, an extra charge of Rs. 1.50 per cinema viewer was to be realised by the cinema owners from persons seeking admission in the cinema hall, as maintenance charges. The maintenance charges so collected were to be utilised by the cinema owners for the maintenance of the cinema hall. In case of non-utilisation, the amount so collected was to be deposited into Government account as entertainment tax. It was also judicially\* held by the Hon'ble High Court Allahabad that the unutilised amount of maintenance charges should

\* Satyachitra Mandir Balia and others V/s Commissioner of Entertainment Tax (petition No. 1187/93)

be got deposited into Government account by the department. The State Government vide notification dated 1 October 2001 had also directed to deposit the same accordingly.

During the course of audit of Deputy Commissioner, Entertainment Tax, Ghaziabad, it was noticed (November 2001) that an amount of Rs. 7.64 lakh collected as maintenance charges by 6 cinema owners during the year April 2000 to March 2001, was neither utilised for the maintenance of the cinema halls nor deposited into treasury as entertainment tax. This resulted in non-realisation of revenue of Rs. 7.64 lakh.

On being pointed out in audit (November 2001), the department stated that action would be taken against cinema owners.

The matter was reported to the Government / Department (February 2002); their replies have not been received (November 2002).



## CHAPTER - 8 : FOREST RECEIPTS

### FOREST DEPARTMENT

#### 8.1 Results of Audit

Irregularities noticed during test check of divisional records of Forest Department during 2001-2002 revealed non/short-realisation of penalty, lease rent etc. and other irregularities amounting to Rs. 78.29 crore which broadly fall under the following categories.

(Rupees in crore)

Sl. No.	Categories	No. of cases	Amount
1	Incorrect fixation of royalty	21	9.87
2	Loss of revenue due to non-registration of saw mills	1	0.01
3	Irregularities in collection and disposal of tendu leaves	4	1.03
4	Miscellaneous irregularities	140	67.38
	<b>Total</b>	<b>166</b>	<b>78.29</b>

A few illustrative cases involving Rs. 77.11 crore pertaining to 2001-2002 and preceding years are given in the following paragraphs:

#### 8.2 Non-realisation of royalty

The Uttar Pradesh Tendu Patta (Vyapar Vinimay) Adhiniyam 1972 inter alia provides that State Government would fix the price of tendu leaves during the year. The State Government appointed (1983) Uttar Pradesh Forest Corporation (UPFC) as its sole agent for selling tendu leaves and ordered (20 September 1983) that the royalty for the year 1983-84 onwards would be realised after adding per centage increase in the price of tendu leaves sold in the previous year over that of preceding year and unusual increase, if any, in market rate in the year in which prices were fixed.

Test check of the records of Principal Chief Conservator of Forest (Evaluation and Working Plan) U.P., Lucknow (January 2001) revealed that from the crop year 1990 to 2001, UPFC had been paying ad hoc royalty of Rs.6.63 crore per crop per year pending decision/revision of the amount of royalty. The increase in the amount of

royalty for the period 1990-91 to 2000-01 as worked out by the UPFC amounting to Rs.76.84 crore on the basis of formula fixed in September 1983. Thus, non-implementation of the government orders resulted in non-realisation of government revenue of Rs. 76.84 crore in the shape of royalty.

The matter was reported to the Government (August 2002); the reply had not been received (December 2002).

### **8.3 Loss of revenue due to non-charging of royalty on actual outturn of timber**

As per guidelines issued (October 1992) by Chief Conservator of Forest, U.P., 5 to 10 per cent variation between the estimated outturn of timber allotted to and actual outturn extracted by the Uttar Pradesh Forest Corporation (UPFC) is permissible. Test check of the records of Divisional Director, Social Forestry Division, Shahjahanpur, revealed (March 2002) that during 1998-99, 1999-2000 and 2000-2001, actual outturn of timber (658.4620 cu. m.) extracted by UPFC exceeded the estimated outturn (304.3730 cu. m.) by 116.33 per cent but the Division raised the demand of royalty on the basis of estimated outturn only. Consequently, royalty of Rs. 27.29 lakh on 318.68 cu. m. (after allowing for 10 per cent variation) of timber escaped assessment and realisation.

On this being pointed out (March 2002) Divisional Director, Shahjahanpur stated (March 2002) that demand for royalty was calculated on estimated outturn of timber and not on actual outturn. The reply, however, was not tenable as it is contrary to the guidelines issued by the Chief Conservator of Forest, U.P. in October 1992.

Thus, not charging royalty on actual outturn of timber resulted in loss of revenue to the tune of Rs. 27.29 lakh.

The matter was reported to the Government (April 2002); the reply had not been received (December 2002).



## CHAPTER-9 : OTHER DEPARTMENTAL RECEIPTS

### A. PUBLIC WORKS DEPARTMENT

#### 9.1 Results of Audit

Test check of accounts and relevant records of Public Works Department, conducted during the year 2001-2002, revealed irregularities involving Rs. 0.87 crore in 62 cases, which broadly fall under the following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Loss due to short realisation of stamp duty	3	0.24
2	Non-levy of centage charges	1	0.03
3	Loss due to non auction of empty drums	4	0.02
4	Other irregularities	54	0.58
	<b>Total</b>	<b>62</b>	<b>0.87</b>

During the year 2001-2002 the department accepted the objections for Rs. 4.50 lakh in 3 cases.

A few illustrative cases involving Rs. 30.24 lakh are mentioned in the following paragraphs:

#### 9.2 Loss of Revenue due to non-compliance with the provisions of agreement

For collection of toll tax of a bridge on Ganga River in Narora (Bulandshahar District), a contract was awarded for Rs. 87 lakh for the period from June 1999 to May 2000. As per terms & conditions of the agreement, the contractor was required to deposit security of Rs. 22 lakh and to deposit instalment of monthly toll tax at the rate of Rs. 7.25 lakh per month on the first of each month with effect from June 1999. In case of default of payment, the contract was liable to be terminated and dues recovered from the security of the contractor. The contract was extended to the month of July and August 2000 though the toll tax for June 2000 was collected departmentally.

During the audit of Executive Engineer Provincial Division, P.W.D., Bulandshahar, it was noticed (September 2001) that the contractor did not deposit toll tax of Rs. 7.25 lakh payable by him for the month of May 2000. However, the department made no efforts to recover it from the security deposited by the contractor, instead, it extended the contract to July and August 2000. The contractor also failed to deposit Rs. 14.50 lakh payable for these two months. Thus, an amount of Rs. 21.75 lakh recoverable from the contractor could have been recovered from the security deposit of Rs. 22 lakh of the contractor which was incorrectly released by the Executive Engineer in January 2001. This resulted in loss of revenue of Rs. 21.75 lakh.

The matter was reported to the department and the Government (between November 2001 and February 2002); reply has not been received (December 2002).

### **9.3 Short-realisation of licence fee**

The Government vide order dated 7 November 1998, enhanced the rate of licence fee of Government residential building with effect from 1 August 1998.

During the course of audit of office of a Provincial Division, Etah (August 2001) it was noticed that licence fee was realised from the occupants of 196 Government residential buildings during the period from August 1998 to July 2001 at pre revised rates resulting in short realisation of licence fee of Rs. 8.49 lakh.

The matter was reported to the Department and the Government (November 2001); reply has not been received (December 2002).

## **B. IRRIGATION DEPARTMENT**

### **9.4 Results of Audit**

Test check of the accounts and relevant records of Irrigation Department conducted in audit during 2001-2002 revealed irregularities involving Rs. 263.91 crore in 16 cases, which broadly fall under following categories:

(Rupees in crore)

Sl.No.	Categories	Number of cases	Amount
1	Other irregularities	15	7.17
2	Review on Receipt from Major Irrigation Project	1	256.74
	<b>Total</b>	<b>16</b>	<b>263.91</b>



During the year 2001-2002, the department recovered of Rs. 5.44 crore in one case pointed out in audit in earlier year.

A review on "Receipt from major irrigation project" involving financial effect of Rs. 70.75 crore is given in the succeeding paragraphs.

## **9.5 Review on "Receipts from Major Irrigation Projects"**

### **9.5.1 Introduction**

Irrigation receipts comprise receipts from water rates chargeable for water supplied for irrigation of agricultural land, and for commercial use, receipts from sale of grass, fish and from auction/lease of land etc. Irrigation in the State of Uttar Pradesh is done through water from canals, reservoirs and tube wells, water is also supplied for other purposes. The water rates for supply of water for agricultural purposes were last revised in 1994 and for other purposes in 1998.

The assessment of water rates for agricultural purposes is made by Irrigation Department whereas collection of revenue is the responsibility of the Revenue Department on the basis of demands (Jamabandi) prepared by Irrigation Department. Assessment and collection of water charges, for purposes other than agriculture is the responsibility of Irrigation Department.

### **9.5.2 Organisational Set up**

The Engineer-in-Chief (E.N.C.) is the head of the Irrigation Department who is assisted by 12 Zonal Chief Engineers. To exercise effective control over the irrigation facilities and for assessment of water rates, the State is divided into 169 circles headed by Superintending Engineer (S.E.), which are further divided into 351 divisions each headed by an Executive Engineer (E.E./Divisional Officer). The Executive Engineer is assisted by Assistant Engineer (A.E.) named Sub-Divisional Officer (S.D.O.) and Junior Engineer (J.E.). Besides, the Deputy Revenue Officers under the Executive Engineer are to supervise the supply of water and revenue work. The Deputy Revenue Officer (D.R.O.) is assisted by the Zileedars, Amins (Sinch Paryavekshak) and Patarols (Sinchpals) in the collection of revenue.

### **9.5.3 Scope of Audit**

A review on "Receipts from Major Irrigation Projects" was conducted during the period from May 2001 to April 2002 covering only Major Canal Projects which contributed about 31 per cent of total receipts of Irrigation Department. The records of all the eight Major Projects\* (Commercial) along with the records of the offices of

\* (i) Upper Ganga Canal, (ii) Lower Ganga Canal, (iii) East Jamuna Canal, (iv) Sarda Canal, (v) Sarda Sahayak Canal, (vi) Agra Canal (vii) Gandak Canal, and (viii) Betwa Canal.

Engineer-in-Chief and 6 Zonal Chief Engineers and 46 divisions for the period from 1996-97 to 2000-2001 were test checked.

#### **9.5.4 Highlights**

- **Water rates/royalty amounting to Rs. 242.08 crore was not recovered from agriculturists and commercial agencies.**

*(Para 9.5.7)*

- **Water charges/royalty was not/short levied on water supplied for commercial purposes amounting to Rs. 1.99 crore.**

*(Para 9.5.8)*

- **Wastage/Seepage of water supply for commercial purposes resulted in loss of revenue of Rs. 11.72 crore.**

*(Para 9.5.9)*

- **Water rates amounting to Rs. 0.25 crore was short levied during the year 1999-2000**

*(Para 9.5.10)*

- **Remission of water rates amounting to Rs. 8.11 lakh was not regular.**

*(Para 9.5.12)*

- **Measurement/Check of measurement was not carried out at all during the year 1999-2000 and 2000-2001.**

*(Para 9.5.13)*

- **Government was deprived of revenue amounting to Rs. 10.17 lakh as lease for fishing purposes was not renewed.**

*(Para 9.5.16)*

#### **9.5.5 Non-observance of prescribed procedure in preparation of annual budget**

As per para 216 of Manual of Orders of Irrigation Department, each Divisional Officer is required to prepare estimates of revenue from irrigation water rates and miscellaneous revenue. Such annual estimates in respect of Rabi and Kharif crops are submitted separately to the Irrigation Department by 15th November each year. These estimates



form the basis of annual estimates of the revenue of the Department as depicted in the budget presented to the State Legislature.

During test check of 46 divisions, it was noticed that none of the divisions had prepared the estimates of revenue. In absence of these estimates, the reliability/correctness of the estimates of the Department as presented to the State Legislature could not be verified.

On this being pointed out in audit, all the divisions stated that there was no tradition of preparing such estimates. The reply was not tenable, as the Manual provides for each division preparing estimates of revenue.

### 9.5.6 Trend of revenue

The actual receipts of Irrigation Department from Major Irrigation Projects and the budget estimates, during the last five years from 1996-97 to 2000-2001, were as follows:

(Rs. in crore)

Year	Budget Estimates	Actual Receipts	Variation Increase (+) Decrease (-)	Percentage
1996-97	81.11	77.75	(-) 3.36	(-) 4
1997-98	87.20	30.18	(-) 57.02	(-) 66
1998-99	89.77	12.26	(-) 77.51	(-) 86
1999-00	145.67	3.68	(-) 141.99	(-) 97
2000-01	177.76	210.15	(+) 32.39	(+) 18

It is evident that actual receipts was less by 66 to 97 percent during the years from 1997-1998 to 1999-2000 than the budget estimates whereas it increased by 18 percent during 2000-01.

The reasons for the abnormal decrease and increase in the actual realisation though called for from the State Government have not been received.

### 9.5.7 Position of arrears

#### (A) Amounts unrecovered by Revenue Department

As per Para 320 (i) of the Irrigation Manual, Collector shall realise water rates assessed by the Divisional Officer of the Irrigation Department as arrears of land revenue. It is

the duty of the Revenue Department and Administration department to see that the dues collected are regularly paid into treasury and accounted for in the departmental accounts.

During test check of records of 45 divisions, it was observed that Tauzi Statement (Recovery Statement) were not sent to the divisions regularly by the Revenue Department as a result of which amounts of water rates amounting to Rs. 174.55 crore were shown as outstanding in the books of Irrigation division as on 31 March 2001 which reflected the lack of co-ordination between Revenue Department and Irrigation Department. Besides, no action had been taken by the department to recover the amount as arrears of land revenue as per U.P. Zamindari Abolition and Land Reforms Act, 1950.

***(B) Amount unrecovered from Revenue Department of other States***

Demand for water rates amounting to Rs. 1.61 crore and Rs. 9.47 crore were sent to the Revenue Department of Madhya Pradesh and Haryana States on account of water supplied to the farmers of those States. But the amount was still outstanding as on 31 March 2001. These cases were neither pursued with these Governments nor action taken to recover the same as arrears of land revenue from the farmers of those states.

***(C) Water charges/royalty outstanding from user agencies for utilisation of water for commercial purposes***

Total unrecovered amount on account of water supplied from Major, Medium and Minor Irrigation Projects for commercial purposes as on 31 December 2000 was Rs. 214.00 crore. The Yearwise details were not available.

The test check of records of 11 divisions of Major Irrigation, revealed that water charges/royalty amounting to Rs. 56.10 crore was outstanding against 14 units as on 31 March 2001 as detailed below:

**(Rupees in crore)**

Sl. No.	Name of division	User agency	Year from which supply of water started	Amount outstanding
1.	Aligarh Division, Ganga Canal, Aligarh	NTPC, Harduaganj	April 1962	18.57
2.	Meerut Division, Ganga Canal, Meerut	Delhi Nagar Nigam	---	20.64
3.	Muzaffarnagar Division, Ganga Canal, Muzaffarnagar	NTPC, Muzaffarnagar	April 1973	5.16



(Rupees in crore)

Sl. No.	Name of division	User agency	Year from which supply of water started	Amount outstanding
4.	Kanpur Division, Lower Ganga Canal, Kanpur	NTPC, Panki	September 1967	0.68
5.	----Do----	Ordinance Gun Factory, Kanpur	June 1991	0.86
6.	Lucknow Division-II, Sarda Canal, Lucknow	Jal Sansthan, Lucknow	April 1998	0.22
7.	Lower Division, Agra Canal	Mathura Refinery	---	0.24
8.	Headworks Division, Agra Canal, Okhla	NTPC, Badarpur	---	5.56
9.	Jhansi Division, Betwa Canal, Jhansi	Jal Sansthan, Jhansi	---	1.92
10.	----Do----	Railways	---	0.26
11.	Mata Tila Dam Division, Jhansi	Jal Sansthan, Talbehat	March 1963	0.10
12.	Rajghat Construction Division, Lalitpur	Railways	--	0.12
13.	.....Do.....	Jal Sansthan, Lalitpur	---	0.07
14.	Narora Division, Lower Ganga Canal, Aligarh	Jal Sansthan, Aligarh	--	1.70
		<b>Total</b>		<b>56.10</b>

No action had been taken by the department to recover the amount as arrears of land revenue as per U.P. Zamindari Abolition and Land Reforms Act, 1950.

**(D) Amounts unrecovered from Uttar Pradesh Fisheries Development Corporation Limited**

Power of auction of fishing rights from major tanks and reservoirs was transferred to the U.P. Fisheries Development Corporation Ltd. from Irrigation Department vide State Government order dated 12 August 1983, with the condition that 1/3 amount of auction money was to be paid to the Irrigation Department in shape of royalty for maintenance of tanks and reservoirs. In case of belated payment interest at the rate of 14 per cent was also chargeable.

During test check of records of 4 divisions it was noticed that royalty inclusive of interest amounting to Rs. 35.33 lakh due upto the year 2000-01 was not recovered from the Uttar Pradesh Fisheries Development Corporation Limited. No action was taken by the department to recover the amount as arrears of land revenue as per U.P. Zamindari Abolition and Land Reforms Act, 1950.

### ***9.5.8 Non/Short levy of water charges/royalty on water supplied for commercial purposes***

The water charges/royalty for water supplied for commercial use are assessed and recovered by the Irrigation Divisions at the rates prescribed. For this purpose an agreement to this effect was to be executed and renewed after every 10 years. Water charges/ royalty at the rate of Rs. 50000 per cusec per year was leviable from April 1985 for the purposes other than agriculture which was revised to Rs. 1.50 lakh per cusec per year with effect from May 1998.

(A) During test check of records of 4 divisions, it was noticed that water charges/ royalty amounting to Rs. 1.99 crore during the period from April 1985 to March 2001 was either not levied or levied short due to which Government was deprived of revenue to that extent, as detailed below:

(Rupees in lakh)

Sl. No.	Name of division	Name of user agency	Period	Royalty leviable	Royalty levied	Non/Short levy
1.	Irrigation Div. Mahoba	Defence Deptt. New Delhi	1995-96 to 2000-01	11.62	2.86	8.76
2.	Irrigation Div. Karvi	Central Railway	1998-99 to 2000-01	1.04	0.35	0.69
3.	Jhansi Div. Betwa Canal, Jhansi	Pariksha Power House	1985-86 to 2000-01	184.16	24.64	159.52
4.	Irrigation Div. Auraiya	Gas Authority of India	1999-2000 to 2000-01	30.00	----	30.00
			<b>Total</b>	<b>226.82</b>	<b>27.85</b>	<b>198.97</b>

On this being pointed out, it was stated that the above amount of water charges/ royalty would be levied and realised.



**(B) Non execution of agreements**

Test check of the records of 14 divisions {Para 9.5.7 (C)} revealed that in none of the cases mentioned in sub-para (except Mathura Oil Refinery Project), the agreement had been executed. As such the amount of Rs. 56.10 crore could not be recovered.

**9.5.9 Loss of revenue due to wastage/seepages of water supplied for commercial purposes**

Executive Engineer Ganga Canal, Aligargh, (vide letter May 2001), informed the Executive Engineer, Electrical District Maintenance Division-III, Kashimpur, that in the supply of water to the Cooling Power System of Thermal Power House, Hardua Ganj, there was wastage of 200 cusec water due to seepage per year. But the Department did not raise the demand against the user agency for this quantity. Due to continued wastage/seepage etc. the Department suffered a loss of Rs. 11.72 crore for the period from April 1995 to March 2001.

**9.5.10 Short levy of water rates**

Seenchpals (Patrols) are responsible for preparation of Irrigation demand (Jamabandi). The Government of Uttar Pradesh, Panchayat Raj Department, vide office order dated April 1999, transferred Seenchpals to Gram Panchayats. It was also ordered that the irrigation demands for the Fasli year 1407 (1999-2000) would be prepared by the Lekhpals of the Revenue Department with assistance of Amins and Ziledars of the Irrigation Department but the same were not prepared by the Lekhpals. Thereafter, the State Government in 4 January 2001 issued an order that Jamabandi for the Fasli year 1407 (1999-2000) should be prepared under the supervision of the District Magistrate with the assistance of Seench Paryavekshak (Amins) and Dy. Revenue Officer of the Irrigation Department, on the basis of assessment of the Fasli year 1406 (1998-99) after making variation upto 10 per cent, so that the revenue assessed may not be less than the revenue of the Fasli year 1406 (1998-99). The Seenchpals were again transferred to Irrigation Department vide Government Order dated 26 June 2001.

During the test check of records of 4 Divisions, it was noticed that the assessment of the water rates was Rs. 3.11 crore for the Fasli year 1407 (1999-2000) whereas the demand raised for the Fasli year 1406 (1998-99) was Rs. 3.36 crore. This resulted in short levy of water rates of Rs. 0.25 crore.

On this being pointed out, it was stated that short demand was due to the transfer of Seenchpals to Gram Panchayats. The reply is not tenable as on transfer of Seenchpal, the demands were to be prepared by the Lekhpals with the help of Amins and Dy. Revenue Officers under the supervision of District Magistrates as per the Govt. Order dated 4 January 2001.

#### ***9.5.11 Non/short levy of punitive charges on wastage or unauthorized use of water***

As per Northern Indian Canal and Drainage (U.P.) (Second Amendment) Rules 1993, in case of a person willfully cutting banks or placing bunds in the canal beds to irrigate his field, punitive rates of water shall be increased to four times of the ordinary rates.

During test check of records of 6 Divisions, it was noticed that punitive rates on unauthorised use of water by cutting banks/placing bunds in the canal beds was not realised at four times of the ordinary rates. This resulted in short levy of revenue of Rs. 23.90 lakh.

#### ***9.5.12 Irregular remission of revenue***

Para 316 of the Irrigation Manual read with Rules 17 and 28 of the Canal Rules lays down that the Divisional Officer may reduce the rate ordinarily leviable on any field that has been damaged due to failure or stoppage of water supply from canals or by locust, hail, floods, frost, rust or any such calamity other than failure or stoppage of supply, whether in times of draught or any other time, provided that the damage is not due to any negligence on the part of the cultivator.

The Secretary, Department of the Irrigation, Government of U.P. vide order dated 15 June 1998 directed the Engineer-in-Chief, Irrigation Department, that for the Kharif crop during 1998, the water for agriculture purposes may be supplied free of water charge during the period from 20 May 1998 to 05 July 1998. The orders were not in consonance with the provision of Manual as the remission did not fall under any circumstances laid down in the Manual.

Test check of records of two divisions revealed that water rates of Rs. 8.11 lakh was remitted for the period 20 May 1998 to 5 July 1998 which was irregular as there were no reasons for remission of water rates in accordance with the provisions of the Irrigation Manual.

#### ***9.5.13 Non-compliance of prescribed norms of checking of irrigation measurement (Partial)***

The assessment of water rates is done by the Amins of the irrigation division after the measurement of the irrigated area. The measurement is checked by various officers/



staff as prescribed in the Manual under Para 323 (3) and Appendix (ii) as detailed below:

Sl. No	Name of Officer/Official	Area of Partal (in hectare)	
		Rabi	Kharif
1	Superintending Engineer	81	61
2	Executive Engineer	121	101
3	Assistant Engineer	283	202
4	Junior Engineer	111	101
5	Dy. Revenue Officer	1000	1000
6	Zileadar	1200	1200

During the test check of 20 divisions, it was noticed that measurement (Partal) and check of measurement was not carried out at all by any officer/official during the Fasli year 1407 (1999-2000) and 1408 (2000-2001).

On this being pointed out, it was stated that the checks of measurement was not done as Seenchpals were transferred from Irrigation Department to Gram Panchayat vide Government Order dated 12th April 1999, and initial measurement could not be conducted at all. The reply is not tenable as the veracity of the demand in Jamabandi were not established, and evasion of water charges could not be ruled out due to failure on the part of the field officer/staff in exercising the prescribed checks.

#### ***9.5.14 Delay in submission of Jamabandi***

As per U.P. Collection Manual the due dates of submission of Jamabandi by the Executive Engineer of Irrigation Division to the Revenue Department for Kharif is between 15th October to 15th December and for Rabi between 15th April to 15th May for different regions.

Test check of the records of 15 Divisions revealed that Jamabandis of Rabi and Kharif crops were not prepared and sent to the Revenue Department within time during the period from 1996-97 to 2000-2001. The delay ranged between 5 to 134 days.

#### ***9.5.15 Non remittance of revenue into the Government Account***

Para 711 of the Financial Hand Book Vol. VI lays down that all receipts of miscellaneous nature, such as sale proceeds of wood/grass, fish and tender fee receipts etc. on behalf of the State Government shall be remitted to treasury immediately.

During test check of records of three Divisions, it was noticed that miscellaneous receipts amounting to Rs. 27.41 lakh were deposited under head "8343-Civil Deposit" instead of "0701 - Major and Medium Irrigation" during the period from 1996-97 to 2000-01.

#### ***9.5.16 Loss due to non renewal of lease for fishing***

The Irrigation Department leased the reservoirs in its control through tenders for fishing purposes from which it earned revenue. But the Government vide order dated 27 January 2000 directed the Engineer-in-Chief, Irrigation Department not to lease reservoirs until a new transparent policy was framed. It was further directed that in case reservoirs for fishing were already on lease, fresh lease should not be executed on expiry of such lease.

During test check of three Divisions, it was noticed that no such policy was framed until 31 March 2001 with the result that fresh lease of reservoirs could not be executed. Non-execution of fresh lease of reservoirs caused loss of revenue of Rs. 10.17 lakh in the shape of royalty.

#### ***9.5.17 Conclusion***

It would be seen that huge amounts remain unrecovered from user agencies and agriculturists for various reasons affecting the revenue of the State Government. The agreements with the user agencies have not been executed for several years. Efforts are required to be made to collect unrecovered amount and execute agreements with user agencies. The policy of the Government to transfer the Seenchpals to Gram Panchayat had also affected the assessment and collection of water rates for water supplied to agriculturists.

The matter was reported to the Department/Government (July 2002); their replies have not been received (November 2002).



## C. Finance Department

### 9.6 Review on Interest Receipt on Government Loans

#### 9.6.1 Introduction

Interest Receipt constitutes a significant part of the non-tax revenue of the State Government. This comprises interest recovered on loans and advances granted to various Public Sector Undertakings, Local Bodies, Cooperative Societies etc. and individuals (including its employees). The order sanctioning a loan incorporates the rate of interest, period of repayment as well as the purpose for which a loan is provided. The rate of interest usually varies between 9 to 22 per cent, depending upon the nature of loan, purpose and class of person, repayment schedule etc. A rebate between 2.5 per cent to 3.5 per cent in the rate of interest is allowed, in case of repayment of instalments of principal and payment of interest on prescribed date(s).

#### 9.6.2 Organisational Set-up

The proposal for grant of loans and advances is processed by the Head of Departments and then recommended to Administrative Departments which issue sanction with the concurrence of Finance Department. Recoveries of loans along with interest are watched by the concerned heads of the departments (Monitoring agencies) according to terms and conditions of the sanction orders, position of outstanding loans and interest is reported to the Administrative Department concerned periodically.

#### 9.6.3 Scope of Audit

With a view to evaluate the efficiency of the departments in ensuring the levy and collection of interest, a review was conducted from April 2001 to April 2002. For this purpose the records of the Department of Cooperatives, Industry, Handlooms and Textiles, Cane and Sugar, Housing and Local Bodies (Viz Nagar Nigam, Jal Santhan and Zila Parishad etc.) for the period from 1996-97 to 2000-2001 were test checked.

#### 9.6.4 Highlights

- Due to lack of proper monitoring by heads of the departments, Government did not raise demand for recovery of principal of Rs. 678.99 crore and interest accrued thereon of Rs. 545.73 crore for the period 1996-97 to 2000-2001.

(Para 9.6.6)

- Issue of defective sanction orders caused loss of interest of Rs.26.63 crore.

(Para 9.6.7)

- Irregular Rebate on interest was allowed to the tune of Rs. 12.72 crore.

(Para 9.6.8)

- Loans retained and surrendered to the Government without utilisation resulted in loss of interest of Rs.2.52 crore.

(Para 9.6.9)

- Interest to the tune of Rs.41.19 crore was short paid due to Computation mistakes.

(Para 9.6.10)

- Delay in issue of share certificates against the orders of conversion of loans into equity resulted in loss of interest of Rs.87.78 crore.

(Para 9.6.11)

### 9.6.5 Trend of Revenue

The estimated collection of interest receipts and actual receipts of the State during 1996-97 to 2000-2001 are indicated below:

(Rupees in crore)

Year	Budget Estimates	Actuals	Variations Excess (+)/ Shortfall (-)	Percentage of variations
1996-97	511.78	478.97	(-) 32.81	(-) 6.41
1997-98	429.41	484.34	(+) 54.93	(+) 12.79
1998-99	439.51	428.00	(-) 11.51	(-) 2.61
1999-2000	461.48	476.68	(+) 15.20	(+) 3.29
2000-2001	437.97	525.17	(+) 87.20	(+) 19.91

The actual receipts increased from Rs. 478.97 crore in 1996-97 to Rs. 525.17 crore in 2000-2001.



Reasons for variations of actual receipts from budget were called for (April 2002) followed by reminder (November 2002). But reply was awaited (December 2002).

### 9.6.6 Non-raising of demand for recovery of interest due to non-maintenance of records

It was noticed that Monitoring Agencies of the Government did not maintain any records to watch recovery of loans sanctioned from time to time; as such the position of overdue instalments of loan sanctioned and interest accrued thereon were not intimated to the Government.

However, scrutiny of the records of 13 loanees for the period from 1996-97 to 2000-2001 revealed that repayment of overdue instalments of loans of Rs. 678.99 crore was not made by loanees on which interest of Rs. 545.73 crore was leviable as on March 2001 as per details given below:--

(Rupees in crore)

Sl. No.	Name of units	Loan due for repayment	Interest
1.	U.P. State Industrial Development Corporation, Kanpur	18.99	16.73
2.	UP Coop. Sugar Mill Fed., LKO	73.89	67.89
3.	UP State Sugar Corp., Ltd. LKO	388.28	344.00
4.	Jal Sansthan, LKO	1.61	1.17
5.	UP Eletronics Corpn. Ltd. LKO	7.50	6.39
6.	UP Jal Nigam, LKO	103.92	69.65
7.	UP Industries Cooperative Association Kanpur	0.71	0.67
8.	UP State Handloom Corp. Kanpur	16.03	1.03
9.	Jal Santhan Kanpur	0.28	0.44
10.	Dir. Handloom & Textile, KNP.	1.08	5.23
11.	Bhadohi Industrial Development Authority, Bhadohi	--*	0.11
12.	Lucknow Development Authority, Lucknow	20.10	17.46
13.	UP Jal Vidyut Nigam, Lucknow	46.60	14.96
	Total	678.99	545.73

\* As it is a revolving fund so principal is not due.

On this being pointed out, the Government stated (March 2002) that records were to be maintained by loanees. Reply is not tenable as records have also to be maintained by the Monitoring Agencies.

### 9.6.7 Loss of interest due to defective sanction

(a) Test check of records of two loanees revealed that loan of Rs. 10.42 crore was paid to them between September 1994 to March 1996. In one case, the repayment schedule and in another case, terms and conditions for grant of loan were not mentioned in the sanction order. Consequently, the demand for interest could neither be worked out nor raised. Based on the prevalent rate of interest, an amount of Rs. 20.42 crore could have been levied.

(b) As per Para 225 of Financial Hand Book Vol. V, a loan bears interest from the date of drawal of advance.

Test check of records of three loanees revealed that contrary to the provisions, the government in their sanction orders allowed the loanees to pay interest from the first day of the next month of the drawal of loan. This resulted in loss of interest amounting to Rs. 6.21 crore as shown under:--

(Rupees in crore)

Sl. No.	Name of loanee	Amount of loan (No. of loans)	Date of drawal of loan	No of days for which interest not charged	Amount of interest involved
1.	UP Rajya Vidyut Utpadan Nigam Ltd. Lucknow	212 ( 8)	Between 11/1999 and 3/2001	7 to 31 days	0.98
2.	U.P. Power Corporation Ltd. Lucknow	702 (5)	1/2000 and 10/2000	14 to 22 days	4.89
3.	Jal Vidyut Nigam Ltd. Lucknow	35 (2)	1/2000 and 8/2000	12 to 22 days	0.34
	<b>Total</b>	<b>949(15)</b>			<b>6.21</b>



### 9.6.8 Irregular availment of rebate on interest

As per terms and conditions of sanction, a rebate on interest at the rate of 2.5 per cent or 3.5 per cent on the normal rate of interest is allowable provided repayment of loans and payment of interest is made on prescribed date(s).

A test check of loan ledgers revealed that in 225 cases, due dates of repayment of loans and payment of interest were not adhered to by 4 loanees though the loanees were granted rebate of interest. This resulted in irregular availment of rebate of Rs. 12.72 crore during the period from 1 April 1996 to 31 March 2001 as detailed below:

(Rupees in crore)

Sl. No.	Name of loanee	No. of loans	Amount of loan Rate of Interest (percent)	Period of loan sanctioned	Amount of rebate on interest
1.	Registrar Cooperative Societies, Lucknow	26	<u>748.91</u> 3.5	1996-97 to 2000-2001	6.10
2.	U.P. State Road Transport Corporation, Lucknow	2	<u>3.77</u> 2.5/3.5	1996-97 to 2000-2001	0.22
3.	Lucknow Development Authority, Lucknow	53	<u>18.97</u> 3.5	1996-2001 Prior to 96-97 (from 82-83)	0.80 4.24
4.	Agra Development Authority, Agra	144	<u>3.69</u> 3.5	1969-70 Prior to 96-97	1.36
	<b>Total</b>	<b>225</b>			<b>12.72</b>

### 9.6.9 Non-levy of interest on unutilised loans

A loan of Rs. 6.69 crore carrying rate of interest of 18 percent was sanctioned to Kanpur Development Authority, Kanpur for development work under a housing scheme, and drawn on 31 March 1996 and placed in personal ledger account. The amount was released to land acquisition Officer by the authority on 4 August 1998 to acquire land, but the land could not be acquired due to dispute. The amount was

surrendered to the Government on 06 September 2000. No interest for the period (04 August 1998 to 05 September 2000), for which the amount remained unutilised, was levied. This resulted in loss of interest amounting to Rs. 2.52 crore.

#### ***9.6.10 Short recovery of interest due to calculation mistake***

During test check it was noticed that in the following cases interest amounting to Rs. 41.19 crore was short deposited due to calculation mistake as detailed below:

**(Rupees in crore)**

Sl. No.	Name of the loanee	Amount of loan/No. of loans	Period of interest	Rate of interest	Interest leviable	Interest levied	Interest deposited short
1.	Registrar Coop. Societies, LKO	1.00 (1)	17-09-98 to 08-04-99	18.5%	0.10	0.08	0.02
		748.91 (26)	1995 to 2001	9.5% to 17%	46.26	34.96	11.30
2.	UPSRTC, LKO	8.77 (3)	1996, 1998 to 2001	13% & 14.5%	2.50	2.13	0.37
3.	UP.Sugar Mills Fed. Ltd.Lko	<u>145.71</u> 24	1995-96 to 2000-01	14.5% to 20.25%	81.56	67.90	13.66
4.	Kanpur Development Authority, Kanpur	<u>110.49</u> 215	1990-91 to 2000-01	4.5% to 22%	52.93	37.09	15.84
	Total				183.35	142.16	41.19

#### ***9.6.11 Loss of interest during conversion of loans into equity/ grants***

In the sanction granting loans, there were no provisions for conversion of loans into equity shares/grants. The Government, however, converted the loans granted to State Corporations/Local Bodies along with interest thereon into equity shares/grants. Due to insufficient authorised share capital, the corporations failed to issue share certificates on prescribed date(s) and are still to be issued in some cases. The interest accrued between the period of the date of orders of conversion of loans into equity and the



actual date of issue of share certificates or as on 31 March 2001 was not levied. This resulted in loss of interest of Rs. 87.78 crore as detailed below:

(Rupees in crore)

Sl. No.	Name of loanee	Detail of loans conversion into equity				Loss of interest during the period B-A or upto 31-03-2001	
		Principal	Interest	Date of conversion into equity (A)	Share issued on (B)	Rate of interest	Amount
1.	Pradeshia Industrial Corporation of Uttar Pradesh, Lucknow	33.53	---	31-7-2000	Not yet issued	13.5% to 17.5%	13.00
2.	Uttar Pradesh State Cooperative Sugar Mills Federation, Lucknow Sugar Mills: (i) Tilhar (ii) Nanpara (iii) Morna	8.55  1.76  1.87  0.90	  Accrued Upto 3/93  Do  Do	1-4-97  1-4-93  Do  Do	18-12-2000  Not yet issued  14-8-96  Not yet issued	15.5%  19.5% to 21%  Do  Do	4.92  2.87  1.26  1.51
3.	UPICA, Kanpur	0.41	---	1-1-97	27-7-99	9.5%	0.09
4.	UP Cooperative Spinning Mill Federation, Kanpur	(i) 30.17  (ii) 36.20	13.26  3.95	1-4-97  1-4-98	Not yet issued  DO	22%  DO	26.55  23.89
5.	Director Local Bodies, LKO (Grants)	Loans due upto 31-3-97  11.25	Accrued upto 31-3-97  829.77	1-4-97	G. O. for conversion into grants Not yet issued	12% to 15.5%	7.19

(Rupees in crore)

Sl. No.	Name of loanee	Detail of loans conversion into equity				Loss of interest during the period B-A or upto 31-03-2001	
		Principal	Interest	Date of conversion into equity (A)	Share issued on (B)	Rate of interest	Amount
6.	U.P. Finance Corporation, Kanpur	41.25	—	19-7-2000	Not yet issued	7.5%	2.16
7.	UP. Tourism Development Corp. Lko.	5.60	--	01.04.93	21-4-98	5.5%	4.34
	Total						87.78

#### 9.6.12 Non -maintenance of records by monitoring authority

Heads of Departments were required to maintain detailed accounts of loans sanctioned and watch recovery of loans and interest accrued thereon. Any deviation in repayment of loans/interest from the due date was to be reported to the Government.

During test check it was noticed that the prescribed procedure for maintaining records was not followed by Commissioners, Cane and Sugar U.P. and Directors of Industries and Handloom & Textiles of U.P., Kanpur.

On this being pointed out (May 2001 and July 2001) Commissioner Cane and Sugar, U.P. stated that necessary action for maintaining records would be taken, whereas Director of Industries stated (November 2001) that there was no need to maintain records as there were no such instructions in the sanction order. Replies of the Departments are not acceptable as without maintenance of records, proper monitoring of repayment of loans and recovery of interest was not possible.

#### 9.6.13 Conclusion

Demand for repayment of Principal and recovery of interest accrued thereon was not raised in a large number of cases due to lack of monitoring/non-maintenance of proper



records by the heads of departments (Monitoring Agencies). Moreover, issue of defective sanctions resulted in loss of interest to the Government.

It is suggested that for better management of repayment of loans and payment of interest due thereon the sanction orders should cover all the terms and conditions for repayment. The requirement of maintenance of loan records to ensure prompt raising of demand and pursuing recovery should be enforced.

Monthly progress report in respect of loan position should be obtained regularly from each loanee unit through heads of departments. This will strengthen internal control mechanism in the department.

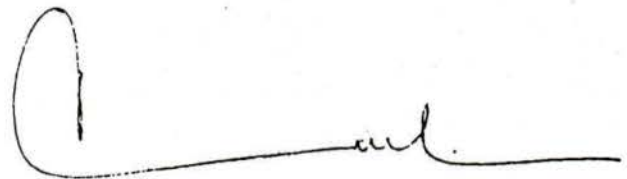
The foregoing points were reported to departments and the Government (July 2002); replies in some cases have not been received.



Lucknow,  
The **12 April 2004**

(BIRENDRA KUMAR)  
Accountant General (Audit)-II  
Uttar Pradesh

Countersigned



New Delhi,  
The **28 April 2004**

(VIJAYENDRA N. KAUL)  
Comptroller and Auditor General of India

### Annexure 'A' (Para 3.2)

#### Para 3.2 – Low production of Alcohol from molasses below the minimum prescribed quantity

(Rupees in lakh)

Sl. No.	Name of distillery	No. of COT	Period	Quantity of molasses used (in quintals)	Production as per A.T. lab (in AL)	Actual production of Alcohol (in AL)	Short Production of Alcohol (in AL)	Rate of excise duty payable per AL	Loss of excise duty
1	2	3	4	5	6	7	8	9	10
1	M/s Vam Organic Chemical Ltd., Gajraula	12	1998-99 1999-2000	709189 241297	6129925.2 6402754.5	5089243.9 4973778.8	1040681.3 1428975.7	Rs. 40 Rs. 48	416.27 685.91
2	Ghosi Distillery Unit, Ghosi, Mau	2	Feb. and March 2000	7923.55	415986.37	379408.9	36577.47	Rs. 48	17.56
3	Nanpara Distillery, Bahraich	1	January 1998	5124	107677.50	99732.0	7945.50	Rs. 40	3.18
4	Pilkhani Distillery, Saharanpur	12	Nov., April & May 2000	40064	822237.6	800808.7	21428.9	Rs. 48	10.29
5	Dhampur Distillery, Dhampur	6	July 2000 to Dec. 2000	137525	2606224.3	2481830.8	124393.5	Rs. 48	59.71
6	Captanganj Distillery, Kushi Nagar	4	March & Sept. 2000	63507	1359246.52	1214188.4	145058.12	Rs. 48	69.63
7	M/s Bajaj Hindustan Sugar Mills Ltd. Distillery Gola	4	Dec. 1999	33667	707603.0	647934.3	59668.7	Rs. 48	28.64
8	M/s Upper Ganges Sugar Mills Ltd. Distillery Syohara	7	July 2000 to Oct. 2000	81717	1551937.5	1458164.8	93772.7	Rs. 48	45.01
9	M/s K.M. Sugar Mills Ltd. Distillery Masaudha, Faizabad	5	April 2000 to August 2000	64800	1339273.45	1138617.2	200656.25	Rs. 48	96.31
10	Sir Shadi Lal Distillery, Mansoorpur	4	July 2000 to Oct. 2000	34974	687819.8	664208.8	23611.0	Rs. 48	11.33
11	M/s Narang Industries Distillery, Gonda	21	2000-2001 2001-2002	96496	1838430.3	1731873.1	106557.2	Rs. 48	51.15
12	Kisan Sahkari Sugar Mills Ltd Distillery, Kayanganj Farrukhabad	8	February 2000 to June 2000	75167	1539379.50	1231743.6	307635.90	RS. 48	147.66
13	M/s National Industries Corporation Ltd. Raja Ka Sahas Pur, Moradabad	10	May 2000 to December 2000	145361	2800674.80	2655909.6	144765.20	Rs. 48	69.49
	<b>Total</b>	<b>96</b>			<b>28309170.34</b>	<b>24567442.20</b>	<b>3741728.14</b>		<b>1712.14</b>



### ERRATA

Page No.	Para No.	Line No. etc.	For	Read
5	1.3	State Excise 2001-2002 Column. 4 Column. 5	11.27 0.6	24.67 1.3
18	2.2.8	10 <sup>th</sup> line	sales tax	trade tax
18	2.2.9	8 <sup>th</sup> line	sales tax	trade tax

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