



Report of the
Comptroller and Auditor General of India
on
Revenue Receipts
for the year ended March 2011



Government of National Capital
Territory of Delhi
Report No 2 of the year 2012

TABLE OF CONTENTS

Particulars	Reference to	
	Paragraph	Page
Preface		(iii)
Overview		(v-vii)
CHAPTER-I: GENERAL		
Trend of revenue receipts	1.1	3
Response of the Departments/Government towards Audit	1.2	5
Failure of senior officials to enforce accountability and protection of the interest of the State Government	1.2.1	5
Departmental Audit Committee Meetings	1.2.2	6
Non-production of records to Audit for scrutiny	1.2.3	7
Response of the Departments to draft audit paragraphs	1.2.4	7
Follow up on Audit Reports- summarized position	1.2.5	7
Compliance to earlier Audit Reports	1.2.6	8
Analysis of the mechanism for dealing with the issues raised by Audit	1.3	9
Position of Inspection Reports	1.3.1	9
Assurances given by the Departments/Government on the issues highlighted in the Audit Reports	1.3.2	9
Recovery of accepted case	1.3.2.1	9
Action taken on the recommendations accepted by the Departments/Government	1.3.2.2	10
Audit planning	1.4	11
Results of audit	1.5	11
Position of local audits conducted during the year	1.5.1	11
This Report	1.5.2	11
CHAPTER-II SALES TAX/VALUE ADDED TAX		
Tax administration	2.1	17
Trend of receipts	2.2	17
Analysis of arrears of revenue	2.3	18
Assessee profile	2.4	18
Cost of VAT per assessee	2.5	18
Arrears in assessment/scrutiny	2.6	19
Cost of collection	2.7	19
Analysis of Collection	2.8	20
Revenue impact	2.9	20
Internal Audit	2.10	21

Results of audit	2.11	21
Performance Appraisal on 'Utilization of Declaration Forms in Inter-State Trade and Commerce'	2.12	22
Compliance deficiency in transaction audit	2.13	33
Irregular claim of exemption/concessional rate of tax on statutory forms.	2.13.1	34
Incorrect claim of concessional rate/exemption of tax on defective Statutory forms	2.13.2	36
Irregular claim of exemption on inter state sale/Branch Transfer not/short accounted for	2.13.3	36
Incorrect claim of exemption on 'F' forms containing multiple month transactions.	2.14	37
Application of incorrect rate of tax.	2.15	37
Irregular deduction claimed on account of TDS.	2.16	38
Irregular claim of reduction of tax/ increase of refund through revised return.	2.17	39
Short payment of tax.	2.18	39
Non reversal of tax credit in respect of goods transferred on 'F' forms.	2.19	40
Non-reduction of ITC on goods destroyed/reduced from stock	2.20	41
Excess claim of input tax credit on purchase of capital goods.	2.21	41
Excess claim of input tax credit.	2.22	42
CHAPTER-III: MOTOR VEHICLE TAX		
Tax administration	3.1	47
Trend of receipts	3.2	47
Cost of collection	3.3	48
Revenue impact	3.4	48
Internal Audit	3.5	48
Results of audit	3.6	48
Performance Audit on "Computerisation in Motor Vehicles Department"	3.7	49
CHAPTER-IV: NON-TAX REVENUE		
Tax administration	4.1	67
Trend of receipts	4.2	67
Internal Audit	4.3	68
Results of audit	4.4	68
Performance audit on Interest Receipts"	4.5	68

PREFACE

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

The audit of revenue receipts of the Government of National Capital Territory (NCT) of Delhi is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising sales/value added tax, state excise, taxes on motor vehicles, stamp duty and registration fees and other tax and non-tax receipts of the NCT of Delhi.

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

OVERVIEW

This Report contains 15 paragraphs including three reviews involving underassessment/short payment/loss of revenue etc. of ₹ 1479.98 crore. Some of the major findings are mentioned below:

I. General

The total revenue receipts of the State Government during the year 2010-11 were ₹ 25,024.10 crore. Revenue raised by the State Government was ₹20,666.70 crore comprising of tax revenue of ₹ 16477.75 crore and non-tax revenue of ₹ 4188.95 crore and receipts from the Government of India were ₹4,357.40 crore. The increase in Revenue Receipts over the previous year by ₹ 4572.77 crore (22.36 per cent) was mainly on account of increase in the State's own tax and non-tax revenues.

(Paragraph 1.1.1)

Test check of the records of the Departments of Trade and Taxes, State Excise, Entertainment, Transport, Revenue, Public Works etc. conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating to ₹ 2,019.31 crore in 2,471 cases. During the year 2010-11, the Departments concerned accepted underassessment and other deficiencies of ₹ 58 crore involved in 279 cases which have been pointed out by audit. Of these, the Departments recovered ₹ 5.69 lakh in 5 cases during the year 2010-11.

(Paragraph 1.5.1)

II. Sales Tax/Value Added Tax

A Performance Audit on “**Cross verification of Declaration Forms used in interstate Trade and Commerce**” revealed the following:-

- We came across irregular claims of concessional rate of tax/exemption of tax against fake forms submitted by the dealers in support of Inter-state sale. The revenue involved in these 10 cases was ₹ 8.13 lakh, besides penalty leviable for misdeclaration.

(Paragraph 2.12.6.1)

- There were instances of Forms C utilised by dealers other than those to whom they were issued. The revenue involved in these seven cases of misutilisation of forms was ₹ 9.54 lakh.

(Paragraph 2.12.6. 2)

- Concealment of sale by the dealers on Declaration Forms C and F, led to non-realisation of revenue of ₹ 12.50 lakh in seven cases.

(Paragraph 2.12.6.3)

- Excess claim of concession/exemption by the dealers on declaration forms led to non-realisation of revenue of ₹ 11.97 lakh in 22 cases.

(Paragraph 2.12.6.4)

- The Department had not put in place mechanism to verify whether every Declaration Form submitted by the dealers were verified with the database available in the TINXSYS website or otherwise, before allowing exemptions/concession of tax
(Paragraph 2.12.7)
- Due dates for filing of Declaration Forms under the CST Act/Rules were routinely extended by the Commissioner of Sales Tax, defeating the objectives for timely filing of the declaration forms.
(Paragraph 2.12.9.4)

Compliance deficiencies in VAT

Irregular claim of exemption/concessional rate of tax without proper supporting statutory forms C, F, E-1, E-2, H and I, resulted in short payment of tax of ₹ 1463.56 crore in 1408 cases across several wards of the Trade and Taxes Department. Besides, interest is also leviable on shortfall in payment.

(Paragraph 2.13.1)

Incorrect claims of exempted sale of unexempted goods under the schedule, resulted in short payment of tax of ₹ 2.30 crore.

(Paragraph 2.15)

There was excess claim by one dealer, of ITC of ₹ 3.19 lakh on purchase of capital goods.

(Paragraph 2.21)

III Motor Vehicle Tax

A Performance Audit on “**Computerisation in Motor Vehicles Departments**” revealed the following:-

- Computerisation for registration of non-transport (private) vehicles through VAHAN was introduced with effect from September 2004 and for issuing driving licenses through customised software with effect from September 2008 in all the 13 Zones of Delhi. Registration of limited commercial vehicles (auto rickshaw, school cab and maxi cab) with VAHAN was implemented in 2008 whereas for other transport vehicles legacy software was being used, which issues paper based Registration Certificate.
(Paragraph 3.7.7)
- The Department failed to formulate IT strategy or a well defined IT Plan and hence the computerization was fragmented and incomplete. Besides, Standard Operating Procedures were not prepared. The SARATHI application was replaced by customised application developed by DIMTS without intimating NIC and MORTH.
(Paragraph 3.7.7.1)
- The Delhi State Registers for VAHAN and SARATHI were not prepared as the Department could populate the State Registers with the data of non-transport (private) vehicles only.
(Paragraph 3.7.7.2)

- The databases were incomplete as certain essential information relating to vehicles owner/licencees details were not captured in the databases. Input controls and validation checks were absent leading to duplicate entries of engine number, chasis number, insurance cover note number, permit number, challan number and fitness certificate number etc. and unreliable database.

(Paragraph 3.7.8 and 3.7.9)

- The parking fee and fitness fee were short recovered to the tune of ₹2.43 lakh and ₹0.74 lakh respectively.

(Paragraph 3.7.10)

- Business Rules were not mapped resulting in short recovery of tax to the tune of ₹ 83.37 lakh on account of one time tax.

(Paragraph 3.7.11.1)

- 660 driving licences were issued irregularly to candidates whose learners' licence had become ineffective due to expiry. 209 persons were issued more than one driving licence.

(Paragraph 3.7.11.2)

- The Department failed to formulate any policy for issuing fancy numbers to vehicles and therefore lost out additional revenue on this account.

(Paragraph 3.7.13)

IV NON-TAX REVENUE

A Performance Audit on “Interest Receipts” revealed the following:-

- The loans sanctioned by the Government of NCT of Delhi (GNCTD) during the period 2006-07 to 2009-10 increased by 41 *per cent* and the outstanding loans stood at ₹ 39219.78 crore at the end of March 2010. The recovery of loans ranged from 0.76 to 2.63 *per cent* only. The interest receipts which rose to ₹ 3236.62 crore were largely by way of book adjustments by sanctioning further loans to cash strapped bodies of the GNCTD.

(Paragraph 4.5.6 and 4.5.8)

- The budgeting of interest receipts by the Administrative Departments was unrealistic in absence of proper records and there was no internal audit of loans sanctioned by the Government of NCT of Delhi

(Paragraph 4.5.7 and 4.5.10)

- Government utilised major portion of its tax revenue (47 *per cent*) to discharge its own debt liability and that of its loanees.

(Paragraph 4.5.8.1)

- There was no mechanism for levy, collection and monitoring of interest receipts as the PAOs and Administrative Departments had not maintained the loan records, watched repayment of loans and penal interest was neither levied nor collected.

(Paragraph 4.5.9)

CHAPTER I GENERAL

EXECUTIVE SUMMARY

Overall increase in the Government receipts In 2010-11, there was an increase of 22.53 *per cent* in tax revenue and 20.81 *per cent* in non-tax receipts over the previous year 2009-10. The increase in tax revenue was mainly due to increase in circle rates by 100 *per cent* and in the case of non-tax, it was mainly due to more realisation of interest on various loans given by State Government.

Failure of the Senior Official to enforce accountability and protect interest of the Government The Inspection Reports (IRs) issued upto December 2010 disclosed that 7867 audit observations involving ₹ 6619.49 crore relating to 360 Inspection Reports remained outstanding as on 30th June 2011. The large pendency of IR/Paragraphs is indicative of the fact that the Heads of the offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by audit in IRs.

Results of audit conducted by us in 2010-11. Test check of the records of 107 units of the Departments of Trade and Taxes, State Excise, Entertainment Tax, Transport, Revenue, Public Works etc. conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating to ₹ 2019.31 crore in 2471 cases. The Departments have accepted underassessments and other deficiencies of ₹ 58 crore in 279 cases during the year.

This Report contain 12 Paragraphs and three Performance Audit Reports involving financial effect of ₹ 1479.98 crore, out of which, the concerned Departments accepted underassessment and other deficiencies of ₹ 58 crore involved in 279 cases which were pointed out by us. Of these, the Departments recovered ₹ 5.69 lakh in 5 cases during the year 2010-11.

CHAPTER I

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of National Capital Territory (NCT) of Delhi during the year 2010-11, grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	Tax revenue	10,155.80	11,782.80	12,180.70	13,447.85	16477.75
	Non-tax revenue	1,463.58	1,816.70	2,300.72	3,467.40	4188.95
	Total	11 619.38	13 599.50	14 481.42	16 915.25	20666.70
2.	Receipts from the Government of India					
	Grants-in-aid	574.23	1,312.88	1,870.79	3,536.08	4357.40
3.	Total revenue receipts of the State Government (1 and 2)	12,193.61	14,912.38	16,352.21	20,451.33	25024.10
4.	Percentage of 1 to 3	95	91	89	83	83

The above table indicates that during the year 2010-11, the revenue raised by the State Government was 83 *per cent* of the total revenue receipts (₹ 25024.10 crore). The increase in tax revenue was 22.53 *per cent* over the previous year and the increase in non-tax revenue was 20.81 *per cent* over the previous year. The balance 17 *per cent* of receipts were from the Government of India as Grants-in-aid.

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) over previous year
1.	Taxes on sales, trade, etc.	7,365.79	8,310.49	9,152.09	10,126.01	12,068.62	(+) 19.18
2.	State Excise	1,133.19	1,301.25	1,420.91	1,643.56	2,027.09	(+) 23.34
3.	Stamp Duty and Registration fee	917.97	1,318.40	788.01	929.97	1,355.75	(+) 45.78
4.	Taxes on Vehicles	362.84	420.20	419.12	462.65	707.55	(+) 52.93
5.	Other taxes	376.01	432.46	400.57	285.66	318.74	(+) 11.58
	Total	10,155.80	11,782.80	12,180.70	13,447.85	16,477.75	(+) 22.53

The concerned Departments reported the following reasons for increase in receipts during 2010-11 over the previous year.

Taxes on sales, trade etc.: The increase was due to increased number of dealers getting registered with the Department, increased emphasis on scrutiny of returns, enhancing the rate of tax of some of the items from 4 to 5 *per cent*, and increased efforts by the border monitoring wing.

State Excise: The increase was due to introduction of new licence in the form of L-53, L-56 & L-9, opening of L-2 vends and natural growth.

Stamp Duty and Registration fee: The increase was due to increase in the registration fee rates w.e.f. 1.7.2010 and increase in circle rates by 100% w.e.f. 8.2.2011.

Taxes on Vehicles: The increase was due to increase in rate of Taxes during the year 2010-11.

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) over previous year
1.	Forestry & Wildlife	0.04	0.05	0.08	0.07	0.10	(+) 42.86
2.	Interest Receipt	1284.98	1634.79	2101.41	3236.61	3869.84	(+) 19.56
3.	Mining Receipt	0.05	0.06	0.10	0.10	0.25	(+)150.00-
4.	Public Works	9.71	11.95	9.23	14.99	15.64	(+) 4.34
5.	Medical & Public Health	15.18	16.87	18.75	24.65	36.28	(+) 47.18
6.	Education, Sports, Art & Culture	9.27	12.52	22.97	22.26	16.06	(-) 27.85
7.	Crop Husbandry	0.40	0.35	0.40	0.16	0.34	(+) 112.50
8.	Animal Husbandry	0.39	0.47	0.36	0.42	0.58	(+) 38.10
9.	Others*	143.56	139.64	147.42	168.14	249.86	(+) 48.60
Total		1463.58	1816.70	2300.72	3467.40	4188.95	(+) 20.81

Note: Others comprise mainly receipts from Dividends & Profits, Public Service Commission, Other Administrative Services Power and Labour & Employment

The reasons for increase in receipts during 2010-11 over the previous year 2009-10 as given by the concerned Departments are as under:

Forestry and Wildlife: The increase was mainly due to increase in compounding/composition charges of the offence cases.

Interest Receipt: The increase was mainly due to the increase in the amount of loan every year and inclusion of loan year by year by the Department of Urban Development.

Public Works: The increase was mainly due to sale of more number of tender documents.

Medical & Public Health: The increase was mainly due to revision of DGEHS contribution/subscription made by Delhi Government employee/ some autonomous bodies and increase in the amount charged by the Department for registration of Nursing Homes/Hospital and renewal of Hospital/Nursing Home registration charges which was deposited under the above receipt head.

Crop Husbandry: The increase was mainly due to collection of more user charges from beneficiaries, dealers, citizen etc. against the various facilities which were being provided, more sale of various inputs to the farmers, kitchen gardens and increase in sale of seedlings, saplings and decorative plants.

Animal Husbandry: The increase was stated to be due to increase in demand of meat; more exporters coming forward to get more meat samples tested.

1.2 Response of the Departments/Government towards Audit

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

The Principal Accountant General (Audit), Delhi, (Pr.AG) conducts periodical inspection of the Government Departments to test check the transactions and verify maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of Offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the Pr.AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government. Some of these are reported through Report of the Comptroller and Auditor General of India (AR) to the State Legislature every year. The Departments are requested to submit their replies to the Public Accounts Committee (PAC) which examine them in their meetings and give their reports to the State Legislature.

IRs issued up to December 2010 disclosed that 7867 paragraphs involving ₹ 6619.49 crore relating to 360 IRs remained outstanding at the end of 30 June 2011 as mentioned in the following table, along with the corresponding figures for the preceding two years.

	June, 2009	June, 2010	June,2011
Number of outstanding IRs	289	341	360
Number of outstanding audit observations	4481	6002	7867
Amount involved (₹ in crore)	3,093.36	3920.65	6619.49

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

(₹ in crore)

Sl. No.	Name of Departments	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Finance	Taxes/VAT on sales, trade etc	329	7650	6589.30
2.	Excise	State excise	2	25	26.52
3.	Transport	Taxes on motor vehicles	15	49	0.05
4.	Stamps and registration	Stamps and registration fees	14	143	3.62
Total			360	7867	6619.49

The large pendency of IRs due to non-receipt of the replies is indicative of the fact that the Heads of offices and Heads of Departments had failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Pr.AG in the IRs.

It is recommended that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.

1.2.2 Departmental Audit Committee Meetings

The Government set up Audit Committees (during various periods) to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned in the following table:

(₹ in crore)

Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
Sales Tax	4	273	276.10
Total	4	273	276.10

The progress of settlement of paragraphs pertaining to Sales Tax was negligible as compared to the huge pendency of the IRs and paragraphs, despite holding Departmental audit committee meetings.

It is recommended that the Government may fix more meetings for all outstanding paragraphs and make more concerted efforts to settle the outstanding observations

1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of Department of Trade & Taxes, Department of State Excise, Entertainment & Luxury Tax, Transport Department, Revenue Department and other receipts' offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, the records relating to three offices involving 2585 cases were not made available to Audit. Of the 2585 cases, 2559 cases related to Department of Trade and Taxes. Break-up of these cases are given in the following table:

Name of Office	Year in which it was to be audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained
Stamps & registration	2010-11	4	Nil
Transport	2010-11	22	Nil
Department of Trade & Taxes	2010-11	2559	Nil

The revenue involved in the above cases could not be ascertained, as the records were not made available to Audit for scrutiny.

1.2.4 Response of the Departments to the draft audit paragraphs

Draft paragraphs proposed for inclusion in the Audit Report are forwarded by the Pr.AG to the concerned Departments through demi-official letters. All the Departments are required to furnish their remarks within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Draft paragraphs clubbed into 15 paragraphs (including three reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the respective Departments and the Government in July 2011. The replies from the Departments were received in parts in respect of all the paragraphs of the report.

1.2.5 Follow up on Audit Reports – summarised position

Once the Reports of the Comptroller and Auditor General of India are placed in the State Legislative Assembly, the various Departments are required to submit

action taken notes (ATNs) on all paragraphs contained therein for consideration of the Public Accounts Committee (PAC). Undue delay in submission of ATNs dilutes the accountability of the Executive to the Legislature and is to be viewed seriously. The position of outstanding ATNs on paragraphs and reviews included in the Report relating to Revenue Receipts of the Comptroller and Auditor General of India, Government of NCT of Delhi as of October 2011 is mentioned in the following table:

Sl. No.	Year of Report ending 31 March	Number of paragraphs and reviews printed in Report	Number of paragraphs and reviews for which ATNs were awaited
1.	2004	20+3 (Reviews)	3+1 (Review)
2.	2005	26+1 (Review)	1
3.	2006	19+1 (Review)	1 (Review)
4.	2007	15+1 (Review)	1*(Review)
5.	2008	9+2 (Review)	2^ (Reviews)
6.	2009	13+2(Reviews)	13+2 (Reviews)
7.	2010	15+1 (Review)	15+1 (Review)

*ATN received partially. ^ ATN in respect of one review received partially.

The Government needs to review the pending Action Taken Notes and take expeditious action.

1.2.6 Compliance to earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2005-06 to 2009-10, the Department/Government accepted audit observations involving revenue of ₹ 894.31 crore of which only ₹ 14.69 crore was recovered till October 2011 as mentioned in the following table:

(₹ in crore)			
Year of the Audit Report	Money value of Audit Reports	Money value of accepted cases	Amount recovered
2005-06	177.85	18.44	0.06
2006-07	254.93	209.06	0.27
2007-08	945.52	28.17	0.18
2008-09	1729.62	109.00	0.14
2009-10	1764.20	529.64	14.04
Total	4872.12	894.31	14.69

As against accepted money value of ₹ 894.31 crore, only ₹ 14.69 crore (1.64 per cent) were recovered during the last five years.

The Government may advise the concerned Departments to take necessary steps for speedy recovery.

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

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

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Department of Trade & Taxes to deal with the cases detected in the course of local audit conducted during the last eight years and also the cases included in the Audit Reports for the years 2003-04 to 2010-11.

1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last *eight* years, paragraphs included in these reports and their status as on 31st March 2011 are tabulated in the following table:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2003-04	1046	9472	750.88	99	1453	564.88	-	104	188.34	1145	10821	1127.42
2004-05	1145	10821	1127.42	93	1436	306.27	668	7468	404.91	570	4789	1028.78
2005-06	570	4789	1028.78	81	1377	399.89	227	1916	174.95	424	4250	1253.72
2006-07	424	4250	1253.72	64	880	320.51	265	2548	543.25	223	2582	1030.98
2007-08	223	2582	1030.98	62	1329	1077.42	79	1266	349.89	206	2645	1758.51
2008-09	206	2645	1758.51	89	2265	1748.24	6	429	413.39	289	4481	3093.36
2009-10	289	4481	3093.36	108	2972	2900.71	11	301	218.47	386	7152	5775.60
2010-11	386	7152	5775.60	54	2009	1831.89	85	564	434.09	355	8597	7173.40

Audit Committee meetings are arranged between the Departments and this office and these Committees settled the old paragraphs on the spot. It is evident from the given table that due to vigorous efforts, against 1145 IRs with 10821 outstanding paragraphs at the end of 2003-04, the number of outstanding IRs declined to 355 with 8597 paragraphs at the end of 2010-11.

1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last six years, those accepted by the Department and the recoveries made are mentioned in the following table:

(₹ in crore)

Year of Report ending 31 March	Number of paragraphs included	Money value of the paragraphs	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2004	23	410.05	-	12.86	12.86
2005	27	402.36	55.65	0.18	13.04
2006	20	177.85	11.52	0.11	13.15
2007	16	254.93	16.54	0.08	13.23
2008	11	945.52	70.75	0.14	13.37
2009	12	1706.46	529.64	14.04	27.41

It is evident from the above data that the action taken by the Government on the paras was insufficient and they need to take action to recover the revenue involved atleast in the accepted cases.

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

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

The following Performance Audits on the Department of Trade & Taxes, State Excise, Entertainment & Luxury Tax and Transport Department featured in the last six Audit Reports; however none of these Reports were taken up by the Public Accounts Committee (PAC).

Year of IR	Name of the Review	Number of recommendations	Status
2004-05	Performance appraisal of levy of Sales Tax in respect of Inter State Sales	Four	The Department did not implement the recommendations.
2005-06	Assessment, levy & Collection of Entertainment, betting & luxury tax	3	Reply not furnished by the Department.
2006-07	High Sea Sale	3	Subsequent audits revealed that Department has not implemented the recommendation.
2007-08	Performance appraisal of exemption of Central Sales Tax on account of branch transfer/consignment sale	4	Reply not furnished by the Department.
2007-08	Information Technology Audit of the Department of Transport	5	Subsequent audit revealed that Department has not implemented the recommendation.
2008-09	Assessment, levy and collection of tax on Works Contract	3	Reply not furnished by the Department.
2008-09	Transition from Delhi Sales Tax to the Delhi Value Added Tax	4	Reply not furnished by the Department.
2009-10	Levy and collection of Stamp Duty and Registration Fee	5	The Department did not furnish any reply.

1.4 Audit planning

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

During the year 2010-11, the audit universe comprised of 107 auditable units, and all the 107 units were audited during the year 2010-11 which is 100 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, three Performance Audits namely **“Utilisation of Declaration Forms in Inter-state Trade and Commerce”**, **“Computerisation in Motor Vehicle Department”** and **“Interest Receipts”** were also taken up to examine the efficacy of the tax administration of these receipts.

1.5 Results of Audit

1.5.1 Position of local audits conducted during the year

Test check of the records of Department of Trade and Taxes, State Excise, Entertainment, Transport, Public Works etc., conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating ₹ 2019.31 crore in 2471 cases. During the course of the year, the Departments concerned accepted underassessment and other deficiencies of ₹ 58 crore involved in 279 cases which have been pointed out by audit. Of these, the Departments recovered ₹ 5.69 lakh in 5 cases during the year 2010-11.

1.5.2 This Report

This report contains 15 paragraphs including three Performance Audits on **“Utilisation of Declaration forms in Inter State Trade and Commerce”**, **“Computerisation in Motor Vehicles Department”** and **“Interest Receipts”** wherein we have pointed out several system’s and compliance deficiencies besides short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 1479.98 crore of which ₹ 58 crore has been accepted by the Department. These are discussed in succeeding Chapters II to IV.

CHAPTER II
SALES TAX/VALUE ADDED
TAX

EXECUTIVE SUMMARY

Marginal increase in tax collection	<p>In 2010-11, the collection of tax from Sales Tax/Value Added Tax which stood at ₹ 12068.62 crore increased by ₹ 1942.61 crore over the previous year.</p>
Internal audit	<p>The DTT has an Internal Audit Cell (IAC) under the charge of Addl. Comm. (Audit). This cell was to conduct test check of cases of assessment as per approved plan. In addition, the Directorate of Audit under the Finance Department is entrusted with the internal audit of all offices/Departments of the Government. Annual Audit Plan for the year 2008-09 and 2009-10 was laid down and internal audit of the Department has been conducted upto 2009-10 only. After 2009-10 onwards, annual plan was not laid down and no audits for the period after 2009-10 was conducted by the IA Wing.</p>
Very low recovery by the Department of observations pointed out by us in earlier years	<p>During the period 2005-06 to 2009-10 we had pointed out several cases of claim of concession/exemption without production of statutory forms or on defective forms, excess claim of deduction, non/short realisation/levy of tax etc. with revenue implication of ₹ 4062.66 crore in 59 cases. Of these, the Department accepted audit observations involving ₹ 628.45 crore but recovered only ₹ 14.37 crore. The recovery position as compared to acceptance of objections was very low.</p>
Results of audit conducted by us in 2010-11	<p>In 2010-11 we test checked the records of 68 units relating to Sales Tax/ Value Added Tax and found irregular claim of exemption/concessional rates of tax without production of prescribed statutory forms/ or on defective forms, excess claim of deduction, non/short realisation/levy of tax etc. involving ₹ 2014.38 crore in 2397 cases.</p> <p>The Department accepted underassessment and other deficiencies of ₹ 57.56 crore in 277 cases which were pointed out in audit during the year 2010-11 and realised ₹ 0.50 lakh in four cases.</p>

Highlights of this Chapter

In this Chapter, we present some illustrative cases selected from observations noticed during our test check of records relating to assessment and collection of sales tax in the office of the Department of Trade and Taxes, Govt. of NCT of Delhi where we found that the provisions of the Act/Rules were not observed, besides one Performance Audit.

In the Performance Audit on "**Utilisation of Declaration Forms in Interstate Trade and Commerce**" we have pointed out various systems and compliance deficiencies in the administration of the Central Sales Tax Act and Rules, with reference to the Declaration Forms which enable dealers to sell/buy at concessional rates of tax.

We have pointed out cases of concession/ exemption claimed on fake declaration form C and F, misutilisation of declaration forms and concealment of sales etc.

Our conclusion

The Department needs to improve the internal control systems including strengthening of internal audit so that the number of assessment/scrutiny cases are increased and weaknesses in the system are addressed and omission of the nature deducted by audit are avoided in future.

It also needs to initiate action to recover the non-realisation, undercharge of tax pointed out by us, more so in those cases where it has accepted our contention.

CHAPTER II
SALES TAX/VALUE ADDED TAX

2.1 Tax administration

Value Added Tax (VAT) is a tax on value addition. It is a multi-point tax, which is levied at every stage of sale. It is collected at the stage of manufacture/resale and contemplates rebating of the tax paid on inputs and purchases, thereby providing revenue to the Government on value addition at every stage.

The receipts from VAT are administered by the Commissioner of Department of Trade and Taxes (DTT) assisted by four Special Commissioners. There are ten zones each headed by the Joint Commissioners/Deputy Commissioners who work under the Additional Commissioners and supervise the work of the Value Added Tax Officers (VATOs), Assistant Value Added Tax Officers (AVATOs) and Inspectors working in the wards under their control. Delhi has been divided into 108 wards headed by VATOs.

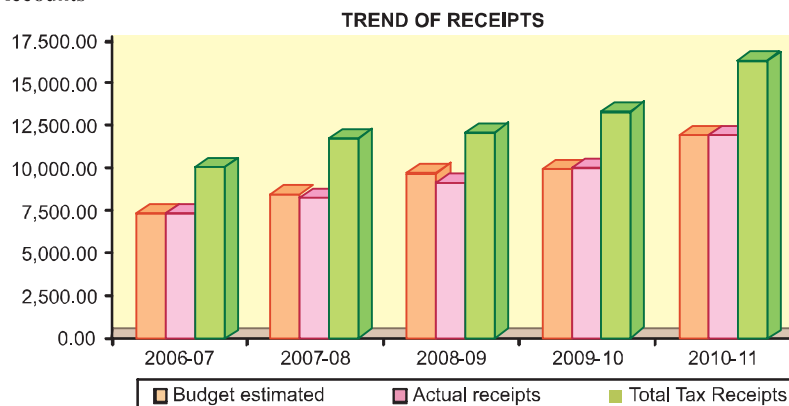
2.2 Trend of receipts

Actual receipts from Taxes on Sales, Trade etc. / VAT during the last five years 2006-2007 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual VAT receipts vis-a-vis total tax receipts
2006-07	7,400.00	7,365.79	(-) 34.21	(-) 0.46	10,155.80	72.53
2007-08	8,500.00	8,310.49	(-) 189.51	(-) 2.23	11,782.80	70.53
2008-09	9,800.00	9,152.09	(-) 647.91	(-) 6.61	12,180.70	75.14
2009-10	10,000.00	10,126.01	(+) 126.01	(+) 1.26	13,447.86	75.30
2010-11	12,000.00	12,068.62	(+) 68.62	(+).0.57	16,477.75	73.24

Source: Finance Accounts



It is seen that the variation between BEs and actual receipts which was as low as 6.61 per cent during 2008-09 and as high as 1.26 per cent during 2009-10 came down to 0.57 per cent during 2010-11.

2.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March, 2011 amounted to ₹ 11770.88 crore of which ₹ 9615.38 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Additions during the year	Amount collected during the year	Closing balance of arrears
2006-07	9615.38	23.65	385.59	9253.44
2007-08	9253.44	193.23	982.71	8463.96
2008-09	8463.96	534.79	324.63	8674.12
2009-10	8674.12	2060.95	790.69	9944.38
2010-11	9944.38	2291.80	465.30	11770.88

It would be seen from the above table that the arrears of revenue have decreased during the year 2006-07 and 2007-08 but increased during the year 2008-09, 2009-10 and 2010-11. The Department stated that the major part of arrears of ₹ 7443.73 crore related to DST Regime. The fact remains that the cases are pending recovery and should be collected before they become irrecoverable.

2.4 Assessee profile

The total number of dealers registered during 2010-11 was 231833 out of which monthly, quarterly, half yearly and yearly dealers were 14465, 102530, 60121 and 54717, respectively. 1232 dealers were large tax payers based on tax deposited of more than one crore and 91432 dealers were small dealers based on tax deposited of less than one lakh. 231833 dealers were required to file the returns as on 31st March, 2011 out of which 183241 dealers filed their returns.

2.5 Cost of VAT per assessee

The Cost of Collection during the year and the preceding two years is shown below:

(₹ in lakh)

Year	Total number of assessees	Cost of collection	Cost of VAT per assessee
2008-09	203358	4761.00	0.02
2009-10	219902	5097.00	0.02
2010-11	231833	5080.00	0.02

It may be seen from the given table that the cost of VAT per assessee is same during the last three years.

2.6 Arrears in assessment/scrutiny

The number of cases pending assessment/scrutiny at the beginning of the year, becoming due during the year, disposed during the year and pending at the end of the each year during 2008-09 to 2010-11 as furnished by the Department of Trade and Taxes on Sales/VAT are as mentioned below:

Year	Opening balance		Cases which become due for assessment/scrutiny		Total		Cases disposed during the year		Cases pending at the end of the year	
	DST Regime	DVAT Regime	DST Regime	DVAT Regime	DST Regime	DVAT Regime	DST Regime	DVAT Regime	DST Regime	DVAT Regime
2008-09	6289	117133	1325	65576	7614	182709	2055	102650	5559	80059
2009-10	5559	80059	390	105185	5949	185244	1004	94131	4945	91113
2010-11	4945	91113	634	42553	5579	133666	994	84726	4585	48940

* as per Sec. 31 of DVAT Act, 2004 where a return is furnished by a person as require under section 26 or 27 of this Act contains the prescribed information and complies with the requirements of this Act and the rules. The return is deemed to be a notice of assessment and to be under the hand of the Commissioner.

** As per notification dated 23.6.05 issued by the Deptt. The VATO/AVATO would scrutinise the returns; (i) 100% scrutiny for Gross turnover more than five crore, (ii) 50% scrutiny for Gross turnover between two to five crore, (iii) 25% scrutiny for Gross turnover between one to two crore, (iv) 2% scrutiny for Gross turnover below one crore.

2.7 Cost of collection

The gross collection in respect of the value added tax revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the year 2009-10 are mentioned below:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2009-10
Taxes on sales, trade etc.	2008-09	9,152.09	47.61	0.52	0.96
	2009-10	10126.01	50.97	0.50	
	2010-11	12068.62	50.80	0.42	

Source: Finance Accounts

From the above table, it is evident that the percentage of expenditure on collection of taxes on sales, trade etc. was less than the all India average percentage for all the years 2008-09 to 2010-11.

2.8 Analysis of collection

The collection of revenue on taxes on sales, trade etc. has increased from ₹ 9152.09 crore during 2008-09 to ₹ 12068.62 crore during the year 2010-11 whereas the percentage of expenditure on collection has decreased from 0.52 per cent to 0.42 per cent during the same period.

2.9 Revenue impact

During the last five years (including the current year's report), audit through its audit reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 4062.66 crore in 59 paragraphs. Of these, the Department/Government has accepted audit observations involving ₹ 628.45 crore and has since recovered ₹ 14.37 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraph accepted*	Amount recovered*
	No	Amount	Amount	Amount
2005-06	11	69.80	11.52	0.11
2006-07	12	59.71	16.54	0.08
2007-08	9	929.83	70.75	0.14
2008-09	12	1706.46	529.64	14.04
2009-10	15	1296.86	00	00
Total	59	4062.66	628.45	14.37

Note: *A review has been considered as one paragraph. Therefore, only amounts accepted by the Deptt. have been taken into the 'Paragraph accepted' figure.

2.10 Internal audit

The DTT has an Internal Audit Cell (IAC) under the charge of the Addl. Commissioner (Audit). This cell was to conduct test check of cases of assessment as per the approved action plan and in accordance with the criteria decided by the Steering Committee so as to ensure adherence to the provisions of the Act and Rules as well as Departmental instructions issued from time to time.

On this being pointed out by Audit, the DTT stated that Annual plan for conducting Internal Audit by the Internal Audit Cell of the Department for the year 2008-09 and 2009-10 was laid down to decide the criteria for selection of cases. Annual Plan for further periods was not laid down.

In addition, the Directorate of Audit under the Finance Department is entrusted with the internal audit of all offices/Departments of the Government. The internal audit of the Department has been conducted by the Directorate of Audit, Govt. NCT of Delhi upto 2009-10.

2.11 Results of audit

We noticed during the test check of the records of 68 units relating to VAT, an underassessment of tax and other irregularities involving ₹ 2014.38 crore in 2397 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	PA on “Utilization of declaration forms in interstate Trade and Commerce”	1	0.42
2.	Irregular claim of exemption/ concessional rate of tax on statutory forms	1408	1773.94
3.	Excess claim of input tax credit	2	0.63
4.	Application of incorrect rate of tax	6	06.35
5.	Irregular deduction claimed on account of TDS	16	06.08
6.	Incorrect claim of concessional rate/exemption of tax on defective Statutory (F, C, E-I, E-II, H & I) forms	16	07.21
7.	Sale on Statutory forms without disclosing off in DVAT-51	3	02.26
8.	Incorrect claim of exemption on ‘F’ forms containing multiple month transactions	4	01.13
9.	Irregular claim of refund/reduction of tax through revised return	2	0.21
10.	Short payment of tax	1	0.17

11.	Excess claim of Input tax credit on purchase of capital goods	1	0.08
12.	Non-reduction of tax credit on goods destroyed/reduced from the stock	1	0.15
13.	Non reversal of input tax credit in respect of goods transferred on F forms	1	0.12
14.	Others	935	215.63
Total		2397	2014.38

During the year, the Department accepted underassessment and other deficiencies of ₹ 57.56 crore in 277 cases which were pointed out in audit during the year 2010-11 and realised an amount of ₹ 0.50 lakh in four cases. The Performance Audit on “**Utilisation of Declaration Forms in interstate Trade and Commerce**” involving ₹ 0.42 crore and few illustrative audit observation involving ₹ 1478.69 crore are discussed in succeeding paragraphs.

2.12 Performance Appraisal on ‘Utilisation of Declaration Forms in interstate Trade and Commerce’

Highlights

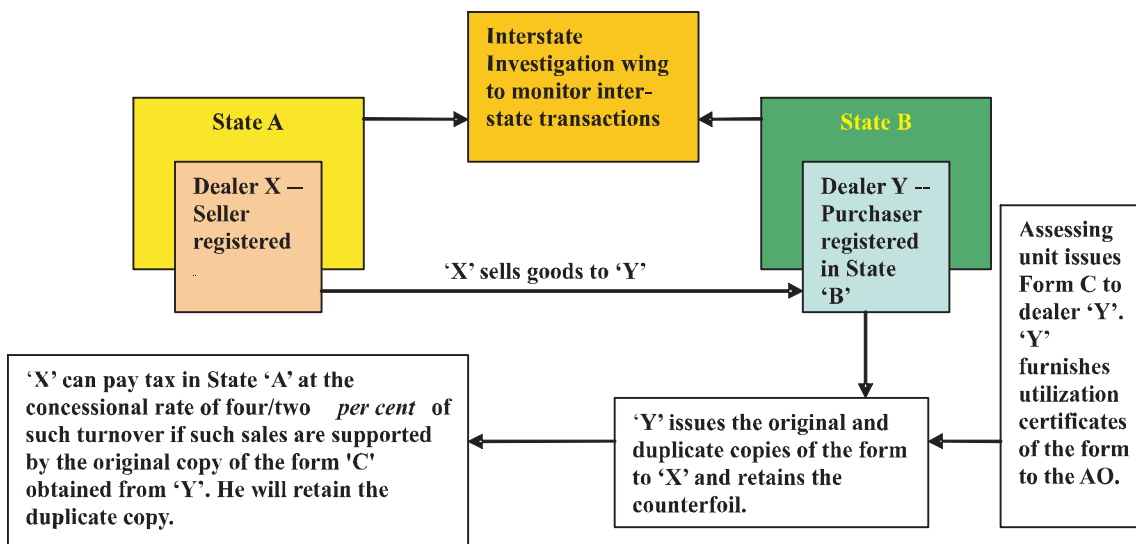
- We came across irregular claims of concessional rate of tax/exemption of tax against fake forms submitted by the dealers in support of Inter-state sale. The revenue involved in these 10 cases was ₹ 8.13 lakh, besides penalty leviable for misdeclaration.
(Paragraph 2.12.6.1)
- There were instances of Forms C utilised by dealers other than those to whom they were issued. The revenue involved in these seven cases of misutilisation of forms was ₹ 9.54 lakh.
(Paragraph 2.12.6. 2)
- Concealment of sale by the dealers on Declaration Forms C and F, led to non-realisation of revenue of ₹ 12.50 lakh in seven cases.
(Paragraph 2.12.6.3)
- Excess claim of concession/exemption by the dealers on declaration forms led to non-realisation of revenue of ₹ 11.97 lakh. in 22 cases.
(Paragraph 2.12.6.4)
- The Department had not put in place mechanism to verify whether every Declaration Form submitted by the dealers were verified with the database available in the TINXSYS website or otherwise, before allowing exemptions/concession of tax
(Paragraph 2.12.7)
- Due dates for filing of Declaration Forms under the CST Act/Rules were routinely extended by the Commissioner of Sales Tax, defeating the objectives for timely filing of the declaration forms.
(Paragraph 2.12.9.4)

2.12.1 Introduction

Under the Central Sales Tax (CST) Act, 1956, (CST Act) registered dealers are eligible to certain concessions and exemptions of tax on interstate transactions on submission of prescribed declarations in Form 'C', 'E-I/E-II' and 'F'. The Central Act is administered by the State Government. The concessional rates of tax are given in furtherance of interstate Trade and Commerce, on production of these Declaration forms. It is the responsibility of the Commercial Tax Department to ensure proper account of declaration forms and to take adequate safeguards against misutilisation of Declaration Forms/Certificates on which tax relief is allowed involving large amount of revenue to this State exchequer.

Form 'C' Under the provisions of the Central Sales Tax (CST) Act, 1956, read with CST (Registration and Turnover) Rules, 1957 and CST (Delhi) Rules, 1957, every dealer who in the course of interstate trade or commerce, sells to a registered dealer, goods of the class or classes specified in the certificate of registration of purchasing dealer shall be liable to pay tax at the concessional rate (four *per cent* of his turnover up to 31st March 2007, three *per cent* of his turnover with effect from 1st April 2007¹ and two *per cent* of his turnover with effect from 1st June 2008²), if such sales are supported by declaration in form 'C' covering all transactions of sale, which take place in a quarter of a financial year between the same two dealers.

The steps involved in the process are illustrated below:

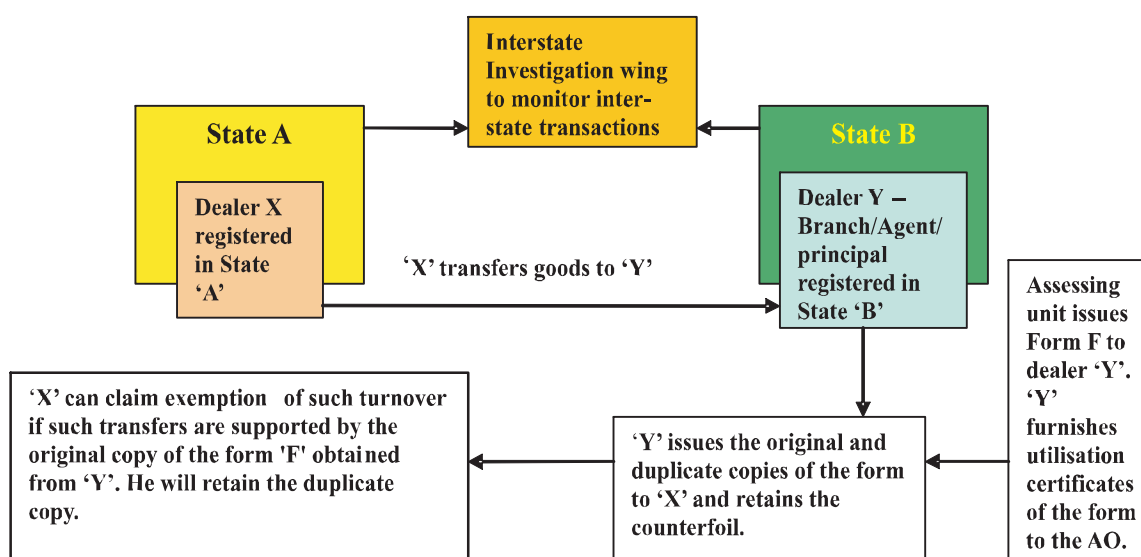


¹ Amendment vide Taxation Laws (Amendment) Act, 2007.

² Notification No.-1/2008-CST-F.No.-28/11/2007-ST dated 30.5.2008

Form 'F' As per provisions of the Central Sales Tax Act (CST Act), 1956, read with the Central Sales Tax (Registration and Turnover) Rules, 1957, {CST (R&T) Rules} and the Central Sales Tax (Delhi) Rules {CST (Delhi) Rules}, 2005, every dealer is required to declare his place of business in other states at the time of seeking registration. Transfer of goods claimed otherwise than by way of sale made by a registered dealer to any other place of his business located outside the state is exempted from tax on production of prescribed declaration in Form 'F' dully filled in and signed by the principal officer of the other place of his business or his agent as the case may be along with the evidence of dispatch of such goods.

The steps involved in the process are illustrated below:



For contravention of the provisions of the CST Act or Rules made there under, the dealer/transferor is liable to pay tax, interest and penalty as prescribed under the DVAT Act³.

TINXSYS Tax Information Exchange System (TINXSYS) is a centralized exchange of all interstate dealers spread across the various States and Union territories of India. TINXSYS is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of interstate transactions taking place among various States and Union Territories. The website was designed to help the Commercial Tax Departments of various States and Union Territories to effectively monitor the interstate trade. TINXSYS can be used by any dealer to verify the counter party interstate dealer in any other State. Apart from dealer verification Commercial Tax

³ Section 9.2 of CST Act

Department officials use TINXSYS for verification of central Statutory Forms issued by other State Commercial Tax Departments and submitted to them by the dealers in support of claim for concessions. TINXSYS also provides MIS and Business Intelligence Reports to the Commercial Tax Departments to monitor interstate trade movements and enables the EC to monitor the trends in interstate trade.

This report reviews the mechanism in the Department of Trade and Taxes (DTT) for ensuring that the concession/exemptions on account of declaration in form 'C' and 'F' were allowed correctly. The Performance Audit revealed many systemic and compliance deficiencies which are discussed in the report.

2.12.2 Organisational setup

The Commissioner is responsible for the administration of the Acts and Rules in the Department of Trade and Taxes. He is assisted by four Special Commissioners, fifteen Additional Commissioners and three Joint Commissioners. There are 10 zones, each headed by an Additional/Joint Commissioner and 106 wards headed by Value Added Tax Officers (VATO). In addition one Key Customer Services (KCS) unit, one Special Zone and one Export Import (EXIM) Cell is headed by Special Commissioner.

2.12.3 Audit objectives

The Performance Audit aims to ascertain whether:

- There exists a foolproof system for custody and issue of the declaration forms;
- exemption/concession of tax granted by the assessing authorities was supported by the original declaration forms;
- there is a system for ascertaining genuineness of the forms for preventing evasion of tax;
- there is a system of uploading the particulars in the TINXSYS website and the data available there is utilised for verifying the correctness of the forms;
- appropriate steps are taken on the receipt and detection of fake, invalid and defective (without proper or sufficient details) forms; and
- there exists an effective and adequate internal control mechanism.

2.12.4 Scope and methodology of Audit

We conducted a test check of the assessment records/returns of 26 wards⁴ between November 2010 and January 2011 covering assessments completed during the period from 2007-08 to 2009-10 where concessions/exemptions were granted under the CST Act and captured the data of 1673 'C' Forms and 1309 'F' Forms. This information was consolidated and forwarded to our

⁴ Ward 19,20,33,48,49,52,54,61,63,70,74,75,76,77,78,79,80,82,83,88,91,94,95,96,100 and KCS(I,II,IV)

Accountants General Offices (AG) of the concerned States/Union Territories⁵ for verification of the genuineness of the Forms against which exemptions/concessions were granted. Similarly we received from the concerned A.G. offices 4505 'C' forms and 2292 'F' forms issued by DTT, Govt. of NCT of Delhi, for verification.

2.12.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the DTT in providing the necessary information and records for audit. An entry conference was held with the Department in January 2011 wherein the Department was apprised of the audit objectives, scope and methodology. The draft review report was forwarded to the Government and the Department in October 2011 and was discussed in exit conference meeting held in January 2012. The final reply of the Department is still awaited.

AUDIT FINDINGS

Compliance Deficiencies

2.12.6 Absence of data base for verification of Declaration Forms

Instructions issued in June 2005⁶ provide that in case of large value transactions claimed to have been made on the basis of central declaration forms H, C, F, etc., the genuineness of the forms must be got verified from the concerned issuing authority of the State/Union Territory through enforcement branch or by sending the officials posted in the ward to different destinations and the Zonal DCs/JCs were required to monitor compliance of the instructions on a weekly basis. However, the Department had no mechanism in place to verify the extent of compliance to these Departmental instructions.

The instructions issued in December 2007⁷ provide that all the Assessing Authorities should verify statutory central forms received from other States along with DVAT 51 through the Tax Information Exchange System (TINXSYS) for which access had been given to all the Zonal Deputy Commissioners and in case the details of such forms were not available on TINXSYS, the forms were to be got verified from the concerned issuing authority.

There was however, no information available with the Department⁸ regarding cross verification done by the Assessing Officers of declaration Forms

⁵ Andhra Pradesh, Assam, Bihar, Chandigarh(UT), Chhattisgarh, Dadra & Nagar Haveli(UT), Daman & Diu(UT), Gujarat, Goa, Haryana, Himachal Pradesh, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Puducherry(UT), Punjab, Rajasthan, Tamilnadu, Tripura, Uttarakhand, Uttar Pradesh and West Bengal

⁶ No.STO/Policy-III/2005-06/809 dated 22nd June 2005.

⁷ F6(48)/Policy-I/VAT/2007/611 dt.7.12.2007

⁸ Zone-VI, Ward-30,31 &32, 33 &37, 34, 35, 36 & 39, 38 & 40, 89

submitted by the dealers, with the records of the issuing authorities of other States.

In our cross-verification conducted during the period May to July 2011, the following findings emerged.

2.12.6.1 Concessional rate of tax claimed on fake forms

Cross verification of C Forms pertaining to interstate sales made by the dealers of Delhi with the utilisation account of declaration forms received through interstate purchases made by the dealers of three States under the control of four wards⁹ had claimed concessional rate of CST in six 'C' Forms amounting to ₹ 55.13 lakh for the assessment year 2007-08 and 2009-10 against 'C' Forms which were either non-existent or that the forms had not been issued by the Commercial Tax Officer of the States¹⁰ concerned to the purchasing dealers. Thus, these forms being prima facie 'fake', the sales made against these forms should be disallowed and differential tax of ₹ 3.68 lakh is recoverable. Besides, interest for delay in payment of tax was also leviable.

Similarly, one dealer of KCS-I Ward, availed exemption of tax on branch transfer of ₹ 35.60 lakh against four forms. Cross verification of these 'F' Forms with the records of Commercial Tax Officer concerned of the branches in Maharashtra State revealed that these forms had not been issued to the transferee branches by the Commercial Tax Officer. Thus these forms being prima facie 'fake', the transfer made against these forms should be disallowed and incorrect claim of exemption of tax of ₹ 4.45 lakh is recoverable. Besides, interest for delay in payment was also leviable.

2.12.6.2 Mis-utilisation of forms

During the assessment years 2007-08 to 2009-10, six dealers of three wards¹¹ availed concessional rate of tax on interstate sale of ₹ 145.40 lakh made against seven 'C' forms. Cross verification of these forms with the records made available by the Commercial Tax Department concerned of the issuing States¹² revealed that the forms had not been issued to the dealers who had claimed the concessional rate of tax but had been issued to some other dealers. The incorrect claim of concessional rate of tax resulted in under charge of tax of ₹ 9.54 lakh. Besides, interest for delay in payment of tax was also leviable.

⁹ Ward 52, 82, 100 and KCS-I

¹⁰ Madhya Pradesh, Uttarakhand and Uttar Pradesh

¹¹ Ward – 54, 83 and KCS-I

¹² Assam, Odisha and Uttar Pradesh

2.12.6.3 Concealment of sale

During the assessment years 2007-08 and 2009-10, five dealers in five wards¹³ availed concessional rate of tax on interstate sale of ₹ 55.93 lakh against six 'C' forms. Cross verification of these forms with the records made available by the Commercial Tax Department concerned of the issuing dealers in their States¹⁴ revealed that the issuing dealers of these forms exhibited the amount of purchase as ₹ 180.64 lakh against these forms in their utilisation accounts. This resulted in likely suppression of sale of ₹ 124.71 lakh with consequent short payment of tax of ₹ 11.73 lakh. Besides, interest was also leviable.

Similarly one dealer of KCS-II Ward availed exemption of tax on branch transfer of ₹ 8.99 lakh against one 'F' form. Cross verification of the form with the records made available by the Commercial Tax Department concerned of the issuing dealers in Uttar Pradesh revealed that the goods amounting to ₹ 16.71 lakh were transferred on that 'F' form. This resulted in likely suppression of Sale of ₹ 7.72 lakh with consequent short payment of tax of ₹ 0.77 lakh. Besides, interest was also leviable.

2.12.6.4 Excess claim of concession

During the assessment years 2007-08 and 2009-10, 11 dealers of six wards¹⁵ availed concessional rate of tax on interstate sale of ₹ 633.55 lakh against 20 'C' forms. Cross verification of these forms with the records made available by the Commercial Tax Department concerned of the issuing dealers in their States¹⁶ revealed that the purchase of ₹ 473.48 lakh was made on these forms. This resulted in excess claim of concessional sale of ₹ 160.06 lakh with consequent excess claim of concessional tax of ₹ 10.06 lakh. Besides, interest was also leviable.

Similarly two dealers of Ward KCS (I and II) availed exemption of tax on branch transfer of ₹ 38.18 lakh against two 'F' form. Cross verification of the forms with the records made available by the Commercial Tax Department concerned of the issuing dealer in two States¹⁷ revealed that purchases of ₹ 19.09 lakh was made on these forms. This resulted in excess claim of exemption on branch transfer of ₹ 19.09 lakh with consequent short payment of tax of ₹ 1.91 lakh. Besides, interest was also leviable.

¹³ Ward - 49, 52, 61, 63 and KCS-I

¹⁴ Gujarat, Himachal Pradesh, Madhya Pradesh, Uttarakhand and Uttar Pradesh

¹⁵ Ward -48, 49, 52, 61,77 and KCS-I

¹⁶ Chhattisgarh, Dadra & Nagar Haveli(UT), Jammu & Kashmir, Haryana, Himachal Pradesh, Rajasthan, Uttarakhand and Uttar Pradesh

¹⁷ Uttar Pradesh, West Bengal

2.12.7 Incomplete data in TINXSYS

2.12.7.1 The Department was asked whether the information regarding the dealers and the Forms issued to the dealers was being uploaded in TINXSYS website promptly and whether there is a system of uploading the details of utilisation of declaration Forms in the website.

The Department informed that the information is uploaded through 'automatic scheduler' on daily basis. The Department, however, conceded that the details of utilisation of declaration forms were not available on TINXSYS website.

2.12.7.2 We verified 6797 Forms issued between 2005-06 and 2008-09 by the Department and found the details of issuing dealers in respect of only 2374 Forms in TINXSYS. The remaining 4423 Forms i.e. 65% of Forms could not be verified through TINXSYS.

2.12.8 Records not produced to audit

2.12.8.1 Out of the 6797 forms issued by DTT cross-verified by us, in 372 cases (308 'C' and 64 'F' forms), the utilization details were not made available by the Department.

2.12.8.2 Records of 11 forms (9 'C' and 2 'F' forms) were not made available by the Department.

System deficiencies

2.12.9 Internal control

Every Department is required to institute appropriate internal controls for its efficient and cost effective functioning. The internal controls should help in creation of reliable financial and management information systems and provide for adequate safeguard against non/short collection or evasion of taxes. The internal controls instituted need to be reviewed and updated from time to time to keep them effective.

2.12.9.1 Absence of database of black listed dealers

The Department was asked whether there is a system of (i) black listing the dealers who have been found utilising invalid/fake declaration Forms (ii) circulation of names of such dealers among various States.

In the reply, seven¹⁸ VATOs and Additional Commissioner of Zone-VI stated that they had no information on the subject and one¹⁹ VATO stated that there was no system of blacklisting the dealers.

¹⁸ Ward- 30-31 & 32, 33 & 37, 34, 35, 36 & 39, 38 & 40, 89

¹⁹ Ward- 103

2.12.9.2 Improper maintenance of records in Form Branch

The Delhi Sales Tax Rules, 1975 and Delhi Value Added Tax (DVAT) Rules 2005, stipulate that all statutory forms are to be printed at the Government Press under the authority of the Commissioner. Such forms can be obtained from the Commissioner or his agent on payment of such charges as may be specified by him from time to time. In October 2005²⁰, the Department prescribed the procedure for receipt, custody, issue of statutory forms and physical verification. As per these instructions, the Form Branch responsible for receipt, custody and issue of statutory forms was required to reconcile the forms at the end of the day and all such entries were to be attested by the VATO (Forms) and an inventory of the forms was to be made after physical verification at the end of every quarter by a team of officers deputed for this purpose. Prior to October 2007, statutory forms were being issued to the dealers from their respective wards. The Department of Trade and Taxes established Centralised Form Cell (CFC) with effect from 1st October 2007 for issue of various types of statutory forms. At present, statutory forms are being issued to the dealers by the respective wards as well as by CFC. The test check of the stock registers of forms 'C' and 'F' revealed that: -

- There were two registers maintained in the Form Branch (i) stock register and (ii) issue register. The forms received from Government Press were entered in the stock register and the forms issued to CFC/Wards were watched through issue register. These were not maintained in the prescribed form GFR 41.
- Summary of stock at regular intervals was not being prepared in stock register.
- The series and serial number of the 'C' forms received from Government Press during 2007-08 was not mentioned in the stock register.
- No physical verification of stock was ever conducted as per the instruction issued in October 2005.
- There were a lot of cuttings & overwriting in the stock register, e.g. in case of 'C' Forms on page 3 (01/06/2010); page 4 (09/07/2010) page 5 (11/08/2010) and in case of 'F' Form page no. 33 (01/06/2010) page 34 (04/08/2010) page 35 (03/01/2011) and in the case of 'H' Form page no. 51 (03/09/2010). These cuttings/overwriting were not attested by the VATO in-charge.

²⁰ Circular No.-38 of 2005-06 dated 24.10.2005

2.12.9.3 Non-monitoring of utilisation of Declaration Forms

Rule 5(15) and 8(13) in the CST (Delhi) Rules provide that every registered dealer to whom declaration form 'C' and 'F' is issued, shall furnish to the Commissioner, utilisation account in Form 2B within a period of three months after the end of the quarter to which the declaration relates, irrespective of whether any declaration form is utilised during the quarter or not.

However, during the course of audit it was noticed that the utilisation account in form 2B is only being furnished by the registered dealer at the time of subsequent issue of forms. The Department had not monitored the utilisation of the Forms as envisaged under the Departmental State Rules.

2.12.9.4 Extension of time for submission of DVAT-51

Rule 4 of CST (Delhi) Rules 2005 provide that every dealer effecting sale in the course of Inter-State trade or commerce shall furnish a reconciliation return with the prescribed statutory forms in form DVAT-51 within three months after the end of each quarter.

Test check of the records revealed that the DTT had been extending the dates for submission of DVAT-51 and statutory forms from time to time as a matter of routine as detailed below:

Period	Quarter	Due Date	Extended Date
2005-06	1 st	30-09-2005	30-04-2007
	2 nd	31-12-2005	
	3 rd	31-03-2006	19-02-2008
	4 th	30-06-2006	
2006-07	1 st	30-09-2006	30-04-2007
	2 nd	31-12-2006	
	3 rd	31-03-2007	15-03-2008
	4 th	30-06-2007	
2007-08	1 st	30-09-2007	05-09-2008
	2 nd	31-12-2007	
	3 rd	31-03-2008	20-12-2008
	4 th	30-06-2008	
2008-09	1 st	30-09-2008	31-12-2009
	2 nd	31-12-2008	
	3 rd	31-03-2009	
	4 th	30-06-2009	
2009-10	1 st	30-09-2009	31-12-2010
	2 nd	31-12-2009	
	3 rd	31-03-2010	
	4 th	30-06-2010	

This extension is against the spirit and provisions of the Act and also delays the process of assessment under the CST Act.

The Government may consider taking steps for streamlining the system of submission of forms and furnishing of reconciliation statements in time as provided in the Act/Rules.

2.12.9.5 Unused declaration Forms not taken back

Rule 5(9) of CST(Delhi) Rules, 2005 provide that any unused Declaration Forms remaining in stock with a registered dealer on the cancellation of his Certificate of Registration shall be surrendered to the Commissioner.

However seven VATOs,²¹ one Additional Commissioner, Zone-VI stated that the Department does not take back the unused declaration Forms remaining in stock with a registered dealer on the cancellation of his registration. Only four VATOs (Ward- 8, 65 & 66, 81 and 103)

stated that the unused declaration forms were taken back but no details were furnished. Not taking back the unused declaration forms may lead to mis-utilisation of the Forms, which is a very serious matter.

2.12.9.6 Internal audit

The DTT has an Internal Audit Cell (IAC) under the charge of the Additional Commissioner (Audit). This cell was to conduct test check of cases of the assessment years 2005-06 to 2007-08 as per the approved action plan and in accordance with the criteria decided by the 'Steering Committee'²² so as to ensure adherence of the provisions of the Acts and the Rules as well as the Departmental instructions issued from time to time.

It was noticed that the Department had prepared action plan in 2007-08 (for two and a half months in the meeting held on 14.01.2008) and 2009-10 for conducting internal audit of the cases relating to assessment year 2005-06 and 2006-07. However, no internal audit was conducted. In the absence of any internal audit being conducted, the management had no means of knowing the areas where system were malfunctioning and therefore, did not have the opportunity of taking remedial action at the appropriate time.

The Government may consider taking immediate remedial measures for effective functioning of the internal audit cell of the Department.

2.12.10 Conclusion

Thus it is seen that the systems and procedures in the Department of Trade and Taxes did not provide assurance of proper administration of the CST Act

²¹ Ward-30-31 & 32, 33 & 37, 36 & 39, 34, 35, 38 & 40, 89

²² Steering Committee comprises the Commissioner, three Additional Commissioners, Joint Commissioner (Audit) and Joint Commissioner (System) of the DTT.

and for preventing leakages of revenue. The mechanism instituted for cross verification of forms 'C' and 'F' was non functional. The Department was not insisting on submission of quarterly utilisation account by the dealers in form 2B. Hence there was insufficient assurance on the correctness of assessment of the interstate purchases of the dealer. By continuously extending the due dates for submission of Declaration forms along with Reconciliation of their utilisation in form DVAT-51 the Department was delaying assessment. Finally, there was no internal system to alert the Department to the errors and lapses in the system. In view of these compliance deficiencies, audit noticed many instances of failure on the part of the VATOs to detect cases of fake forms, mis-utilisation of statutory forms, likely suppression of sale and excess claim of concession/exemption which had resulted in misuse of the concessional rate of tax/exemption under the CST and consequential short levy/non-levy of tax under the State Act.

2.12.11 Summary of recommendations

In the interest of generating additional revenue the Government may:

- prescribe a periodical return by the AAs to their superior authorities about the number of 'C' forms and 'F' forms required to be cross verified, actual number of forms verified, shortfall, if any.
- in consultation with the service provider take steps to overcome the deficiency of non-availability of the requisite data in the TINXSYS website so as to ensure its effective utilization for cross verification of the Declaration Forms by all stakeholders.
- take effective steps for submission of the forms and reconciliation statements in time as provided in the Act.
- consider taking immediate remedial measures for effective functioning of the internal audit cell of the Department.

2.13 Compliance Deficiencies in Transaction Audit

From scrutiny of assessment records of value added tax (VAT), we observed several cases of claim of concession/exemption without production of prescribed statutory forms/or on defective forms, excess claim of deduction, short payment and irregular claim of exemption etc. which resulted in short levy of tax as mentioned in the succeeding paragraphs. These cases are illustrative and are based on the cases noticed during the test check carried out by us. We pointed out such omissions on the part of Assessing Authorities (AA) each year; but not only do the irregularities persist but they remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that occurrence of such cases can be avoided, detected and corrected.

2.13.1 Irregular claim of exemption/ concessional rate of tax on statutory forms

We noticed during the test check of the dealer files of DTT between April 2010 and March 2011 that in 1408 cases, for the assessment years 2008-09, the dealers claimed exemption/ concessional rate of tax on

Under the provisions of CST Act and Rules a dealer may claim exemption/concessional rate of tax for the goods under the Inter State Trade:

- in respect of any goods on the ground that the movement of goods was occasioned by transfer of such goods by him to any other place of his business or to his branch or to his agent or principal as the case may be;
- sale of goods by one registered dealer if the dealer furnishes a declaration in form 'C' covering all the transactions of sales;
- where sale of any goods has been effected by a transfer of documents of title to such goods during their movement from one state to another (sale in transit) to the Government or to a registered dealer;
- in the case of export sale or sale made to a unit situated in a Special Economic Zone, exemption is admissible subject to the furnishing of 'H' forms or 'I' forms, as the case may be.

For claiming the exemption/concessional rate of tax, the dealer is required to furnish the prescribed statutory forms, like Forms F, C, EI, EII, H & I as prescribed under the CST Acts and Rules.

In case of default in submission of the forms, the transactions needed to be assessed at the rate applicable in the State.

₹ 21100.22 crore on account of branch transfer/ consignment sale, concessional rate of tax of two per cent, transit sales, sales to SEZ and export out of India disclosed by them in Form I and in Form DVAT 51. Our scrutiny indicated that the dealers had not submitted the required statutory forms by the dates prescribed by the Department for the said cases. We also noticed that some of the dealers have sought extension for submission of the statutory forms. However, even after expiry of the extended date the dealers failed to submit the forms. Further, it was also noticed that KCS wing have the maximum number of cases of non-submission of statutory forms. The Department has not taken action to assess these dealers and disallow the exemption sought by them. This had resulted in irregular

exemption of tax of ₹ 1463.56 crore. Besides, interest and penalty was also leviable for irregular claims. The details are given in the following table:

(₹ in crore)

Sl. No.	Transaction details	Number of cases	Transaction value	Tax payable
1.	In 84 wards ²³ the dealers did not submit prescribed F forms in support of branch transfer/ consignment sale	457	12011.34	925.34
2.	In 97 wards ²⁴ the dealers did not submit prescribed C forms	764	5833.56	330.29
3.	In 64 wards ²⁵ the dealers did not submit prescribed E1/E2 forms	136	2771.98	196.21
4.	In 28 wards ²⁶ the dealers did not submit prescribed H forms	45	120.05	6.42
5.	In six wards ²⁷ the dealers did not submit prescribed I forms	6	363.29	5.30
	Total	1408	21100.22	1463.56

After we reported the matter, the Department accepted the audit observations and stated that in 248 cases involving ₹ 50.58 crore demand has been raised, out of which in four cases recovery of ₹ 0.50 lakh has been made. Further, report and reply on the remaining cases has not been received.

We reported the matter to the Government in July, 2011 but have not received any reply (January, 2012).

²³ Ward Nos. 1, 2, 3, 7, 8, 9, 14, 15, 17, 20, 22, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 43, 44, 45, 46, 48, 49, 50, 52, 53, 54, 56, 57, 58, 60, 61, 62, 63, 64, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 77, 78, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 104, 105, 106, KCS I, KCS II, KCS III, KCS IV, KCS V, KCS VI and Spl. Zone.

²⁴ Ward nos 1, 2, 3, 7, 8, 9, 10, 11, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 30, 31, 32, 33, 34, 35, 36, 38, 39, 40, 41, 43, 44, 45, 46, 48, 49, 50, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 66, 67, 68, 69, 71, 72, 73, 74, 75, 76, 77, 78, 82, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100, 101, 102, 103, 104, 105, 106, KCS I, KCS II, KCS III, KCS IV, KCS-V, KCS-VI and Spl. Zone.

²⁵ Ward nos. 1, 2, 7, 9, 10, 11, 14, 15, 19, 21, 24, 25, 26, 27, 28, 29, 31, 33, 34, 35, 41, 43, 45, 46, 49, 50, 52, 53, 56, 59, 60, 61, 62, 63, 64, 67, 68, 69, 71, 72, 77, 83, 84, 85, 86, 87, 88, 89, 91, 94, 95, 96, 98, 100, 101, 102, 103, 104, KCS-I, KCS-II, KCS-III, KCS-IV, KCS-VI & Spl. Zone.

²⁶ Ward Nos. 2, 13, 17, 30, 33, 34, 35, 43, 49, 52, 57, 66, 71, 72, 74, 80, 83, 84, 87, 93, 96, 97, 105, 106, KCS-III, KCS IV, KCS-VI and Spl Zone.

²⁷ Ward Nos. 53, 61, 71 KCS II, KCS III and KCS VI

2.13.2 Incorrect claim of concessional rate/exemption of tax on defective Statutory forms

Under the provisions of CST Act and Rules a dealer may claim exemption/concessional rate of tax for the goods under the Inter State Trade. For claiming such exemption/ concessional rate of tax, the dealer is required to furnish the prescribed statutory forms (in original portion), like F, C, E-I, E-II, H & I. Transactions not supported by proper and valid statutory forms are treated as interstate sales and attract tax and interest accordingly.

We noticed during the test check of records of 10 wards²⁸ of DTT between April 2010 and March 2011 that in 16 cases dealers claimed concessional rate of tax on interstate sale/exemption on branch transfer of ₹ 71.84

crore in the year 2008-09. Such claims were not supported by (1) valid statutory forms, (2) transactions mentioned in the forms relating to the previous year or (3) duplicate portion of forms. The assessing authority did not scrutinise the statutory forms submitted by the dealers to ascertain the correctness of claim of concessional rate of tax on interstate sale/exemption on branch transfer made by the dealers in their returns. This resulted in under assessment of tax of ₹ 5.95 crore. Besides, interest was also leviable.

After we reported the matter, the Department accepted the audit observations and stated that in one case involving ₹ 11.57 lakh demand has been raised Further, report and reply on the remaining cases has not been received.

We reported the matter to the Government in July, 2011 but have not received any reply (January, 2012).

2.13.3 Irregular claim of exemption on Inter State sale/Branch Transfer not/short accounted for

Under the DVAT Act, a person who furnishes a return under the Act, which is false, misleading, or deceptive in a material particular or omits from it any matter or thing without which the return is false, misleading in a material particular, shall be liable to pay, by way of penalty, a sum of ₹ 10,000 or the amount of tax deficiency, whichever is greater. In addition, interest on tax is computed at the rate of 15 per cent per annum computed on daily basis is also leviable.

We noticed during the test check of the records of two wards²⁹ of the DTT for the period from April 2010 to March 2011 that in three cases the dealer had shown interstate sale/branch transfer or consignment sale for ₹ 2.41 crore in DVAT-51 and furnished statutory forms accordingly, as against

²⁸ Ward nos 11, 20, 32, 38, 57,60,71,75, KCS-II and KCS-VI

²⁹ Wards Nos. 20 and KCS-II

disclosed interstate sale/ branch transfer of ₹ 22.54 crore in their returns (DVAT-16), filed for the assessment year 2008-09.

This resulted in non/short account of sale against statutory forms of ₹ 20.13 crore in DVAT-51 and consequent non/short submission of statutory forms. This resulted in short payment of tax of ₹ 97.67 lakh. Besides, interest and penalty was also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.14 Incorrect claim of exemption on 'F' forms containing multiple month transactions

Under Section 6-A of the CST Act read with Rule 12(5) of the CST (R&T) Rules, dealer may claim exemption of tax by filing a declaration in form 'F' covering transfer of goods effected during a period of one calendar month by a dealer to any other place of his business or to his agent or principal outside the state as the case may be. Otherwise, the transactions are to be treated as inter state sales and taxed accordingly.

We noticed during the test check of the records of three wards³⁰ of DTT between the period from April 2010 and March 2011 that in four cases relating to the assessment year 2008-09, the dealers claimed exemption of tax on account of

branch transfer/ consignment sale of ₹ 21.85 crore on the basis of 'F' forms which covered transactions beyond one calendar month and was thus, liable to be treated as inter state sales without valid declarations and tax at the normal rate had to be paid. This resulted in short realisation of tax of ₹ 92.88 lakh. Besides, interest was also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.15 Application of incorrect rate of tax

The DVAT Act specifies tax rates payable by a dealer in respect of the goods or classes of goods mentioned in the various schedules appended to the Act. If any person furnishes incorrect return, the Commissioner may assess or reassess the amount of tax due for a tax period. Short payment of tax attracts penalty at the rate of one *per cent* of tax deficiency per week or ₹ 100 per week for the period of default, whichever is higher and interest at prescribed rates.

We noticed during the test check of the records of six wards³¹ of the DTT between April 2010 and March 2011 that in six cases for the assessment year 2008-09, the dealers had shown exempt sale

³⁰ Ward Nos. 60, 63 and KCS-VI

³¹ Ward nos. 48, 60, 63, 78, 81 and KCS-III.

amounting to ₹ 56.51 crore in the return without any supporting details and the items sold by the dealers are not in the Schedule of exempt goods. The assessing authority did not scrutinise the returns of the dealers to ascertain the correctness of tax paid. This resulted in short payment of tax of ₹ 2.30 crore. Besides, interest and penalty were also leviable.

After we reported the matter, the Department accepted the audit observations and stated that in one case (M/s. SRS Ltd.) involving ₹ 2.40 crore demand has been raised. Further, report and reply on the remaining cases has not been received.

We reported the matter to the Government in July, 2011 but have not received any reply (January, 2012).

2.16 Irregular deduction claimed on account of TDS

Under the provisions of the DSTWC Act 1999 and the DVAT Act 2004 and Rules made thereunder, any person, not being an individual or HUF, who is responsible for making payment to any dealer/contractor for discharge of any liability on account of valuable consideration payable for the transfer of property in goods in pursuance of the works contract for value exceeding rupees twenty thousand, shall, at the time of credit of such sum to the account of the contractor or at the time of payment thereof in cash or by any other mode, whichever is earlier, deduct tax thereon at the rate of two *per cent*. And also furnish to the contractor, from whose bills or invoices such deduction is made, a certificate in Form DVAT-43 in original in respect of the amount deducted, the rate at which it has been deducted and the details of deposit into the Government treasury.

We noticed during the test check of periodical returns of five wards³² of DTT between April 2010 and March 2011 that in 16 cases relating to the assessment year 2008-09, the Assessing Authority failed to detect that the dealers claimed deduction of TDS without furnishing the TDS certificates in original in the form DVAT-43. This resulted in incorrect claim of reduction of tax amounting to ₹ 4.47 crore. Besides, interest was also leviable.

After we reported the matter, the Department accepted the audit observations and stated that in two cases involving ₹ 8.45 lakh demand has been raised. Further, report and reply on the remaining cases has not been received.

We reported the matter to the Government in July, 2011 but have not received any reply (January, 2012).

³²ward Nos. 44, 81, 83, 84 & 107(Spl. Zone)

2.17 Irregular claim of refund/reduction of tax through revised return

Section 28 of the DVAT Act, 2004 and Rule 29 thereunder stipulate that, if, within 4 years of the making of an assessment, any person discovers a mistake or error in any of the returns filed by him under this Act and he has as a result of the mistake or error paid more tax than was due under this Act, he may lodge an objection against the assessment in the manner and subject to the conditions stipulated under Section 74 of the Act.

We noticed during test check of the records of ward 14 of the DTT between April 2010 and March 2011 for the assessment year 2008-09 that in two cases the dealers revised the returns subsequently and increased the refund amount or reduced tax demand without lodging an objection against the assessment in accordance

with Section 74 of the Act, which was irregular. The assessing authority did not scrutinise the returns of the dealers to disallow such reductions of tax demand or increased refunds made by the dealers in the revised returns. This resulted in incorrect allowance of claims of reduction of tax/refund, amounting to ₹ 8.59 lakh with consequent short payment of tax by the like amount. Besides, interest and penalty were also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.18 Short payment of tax

Section 8(4) of the CST Act read with rules made there under stipulates that sale of good by one registered dealer to another registered dealer in the course of interstate sale may be allowed at the concessional rate of tax of three percent and two percent w.e.f. 1.6.2008 if the dealer furnished a declaration of sales in form 'C', otherwise tax is leviable at the rate applicable in the state and short payment of tax attracts penalty at the rate of 1 per cent of the tax deficiency per week or ₹ 100 per week for the period of default whichever is higher and interest at prescribed rates.

We noticed during the test check of the records of one ward 84 of the DTT between April 2010 and March 2011 that in one case for the assessment year 2008-09, the dealer incorrectly computed their tax liability aggregating to ₹ 11.24 lakh @ 2% on interstate concessional rate of tax sale amounting to ₹ 5.62 crore in the months of April, 2008 and May, 2008 as against correct amount of ₹ 16.86 lakh. The Assessing

Authority did not scrutinise the returns to ascertain the correctness of the payment of tax. This resulted in short payment of tax of ₹ 5.62 lakh. Besides, interest and penalty were also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.19 Non-reversal of tax credit in respect of goods transferred on 'F' forms

Under Section 10(3) of the DVAT Act, 2004 the dealer is required to reduce the amount of tax credit originally claimed by the prescribed proportion where-

- (a) goods were purchased by a dealer; locally and
- (b) the dealer claimed a tax credit in respect of goods, and did not reduce the tax credit by the prescribed percentage; and
- (c) the goods were transferred from Delhi, other than by way of a sale, to a branch of the registered dealer or to a consignment agent.

Otherwise, excess claim of tax credit attracts penalty at the rate of 1 *per cent* of the tax deficiency per week or Rs.100 per week for the period of default whichever is higher and interest at prescribed rates.

We noticed during the test check of the records of one ward 12 of the DTT for the period from April 2010 to March 2011 that in one case relating to the assessment year 2008-09 the dealers had made branch transfer out of the goods purchased locally, but did not reduce the input tax credit proportionate to the goods so transferred. This resulted in excess claim of input tax credit of ₹ 4.83 lakh. Besides, interest and penalty was also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.20 Non-reduction of ITC on goods destroyed/reduced from stock

Under Rule 7(3) of DVAT Rules, 2005, if any goods or goods manufactured out of such goods are lost or destroyed the dealer shall not be eligible to claim tax credit on such goods and the credit taken in any earlier tax period shall be recovered in the tax period in which goods are claimed to have been lost or destroyed. Irregular claim of credit attracts penalty one *per cent* of the tax short paid per week or ₹ 100/- per week whichever is higher.

We noticed during the test check of the records of ward-87 of DTT for the period from April 2010 and March 2011 that in one case relating to the assessment year 2008-09, the dealer

had written off his stock of ₹ 1.54 crore, As per return he had claimed ITC of ₹ 1.38 crore. We are unable to verify whether proportionate ITC was reduced due to the write off. The Department may issue notice for this verification. The excess claim of input tax credit involved is ₹ 6.16 lakh. Besides, interest and penalty was also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.21 Excess claim of input tax credit on purchase of capital goods

Under Section 2(i)(f) of DVAT Act, 2004 'capital goods' mean plant, machinery and equipment used, directly or indirectly in the process of trade or manufacturing or for execution of works contract. The Act also provides that a dealer can claim ITC during the first year only up to the extent of 1/3rd against the purchase of capital goods and rest of it during the subsequent two years. Incorrect claim of tax credit attracts penalty equal to tax credit so claimed or ₹ 10,000 whichever is greater. The dealer shall also be liable to pay simple interest at the rate of 15 *per cent* per annum computed on a daily basis.

Test check of the records of one ward 84 of the DTT during April 2010 to March 2011 revealed that in one case dealer had purchased capital goods amounting to ₹ 1.20 crore and claimed input tax credit to the tune of ₹ 4.79 lakh during the year 2008-09 as against admissible amount of ₹ 1.60 lakh being 1/3rd of the ITC. This resulted in incorrect claim of input tax credit of ₹ 3.19 lakh. Besides, interest and penalty was also leviable.

We reported the matter to the Department and to the Government in July, 2011 but have not received any reply (January, 2012).

2.22 Incorrect claim of input tax credit

Under the DVAT Act, a registered dealer is entitled to a tax credit in respect of the turnover of purchases occurring during the tax period where purchase arises in the course of his activities as a dealer and the goods are to be used by him directly or indirectly for the purpose of making sales which are taxable under the Act or made in the course of interstate trade or export out of the territory of India. Incorrect claim of tax credit attract penalty equal to tax credit so claimed or ₹ 10,000 whichever is greater. The dealer shall also be liable to pay simple interest at the rate of 15 *per cent* per annum computed on a daily basis.

We noticed during the test check of the records of two wards³³ of DTT between April 2010 and March 2011 that in two cases the dealers had shown nil purchases but they claimed input tax credit of ₹ 27.44 lakh in the year 2008-09 on the purchase of tradable goods locally as against allowable credit of NIL. This resulted in incorrect claim of input tax

credit of ₹ 27.44 lakh with consequent short payment of tax by the like amount. Besides, interest and penalty was also leviable.

We reported the matter to the Department/Government in July, 2011, no reply has been received (January, 2012).

³³Ward Nos.1 and 87.

CHAPTER III
MOTOR VEHICLE TAX

EXECUTIVE SUMMARY

Trend of Receipts	<p>The tax receipts from vehicles showed an increasing trend. In 2006-07, the receipts were ₹ 362.84 crore which gradually increased to ₹ 707.55 crore in 2010-11.</p>
Delhi State Register for VAHAN and SARATHI was not prepared	<p>We conducted a Performance Audit of Computerisation in the Transport Department, especially to see whether the GOI/NIC developed application systems VAHAN and SARATHI were implemented effectively and efficiently by the Delhi Government. In this Chapter we present the findings of this Performance Audit.</p> <p>The Department failed to formulate an IT strategy and integrate its database of various commercial vehicles. The Delhi State Register could be populated only with the data of non-transport vehicles. The Department has put in place a fragmented computerised system, defeating the objectives of computerisation.</p>
Contracts were poorly managed resulting in undue benefit to the vendor	<p>The agreement for implementing the Smart Card for registration of vehicles had serious flaws. The lapses in the process of selection and award of work to the vendor were noted by Public Accounts Committee (PAC) in March 2006. These lapses were included in the report of Comptroller and Auditor General of India for the year ended 31 March 2008 Volume-II (Revenue Receipts) Government of NCT of Delhi.</p> <p>However the Department had not taken remedial action nor furnished any Action Taken Note.</p>
Application controls were poorly implemented	<p>The database did not have essential information on vehicles owners/licencees and was therefore unreliable. Input controls and validation checks were absent and instances of manual intervention were noticed. Business rules were not correctly mapped into the application as driving licences to individuals whose driving licences were cancelled were subsequently re-issued. There were also instances where individuals who failed the driving test were issued driving licences. Taxes and fees to the tune of ₹ 86.54 lakh were short recovered.</p>

CHAPTER III MOTOR VEHICLE TAX

3.1 Tax administration

The Department is headed by the Principal Secretary cum Commissioner (Transport) who is responsible to the Government of N.C.T. of Delhi for its administration. The Commissioner Transport exercises general supervision over all the 13 Zonal offices headed by the Motor Licensing officer. The Zonal offices collect revenue from registration fee of vehicles, permit fee, tax on vehicles, issue of driving licenses etc.

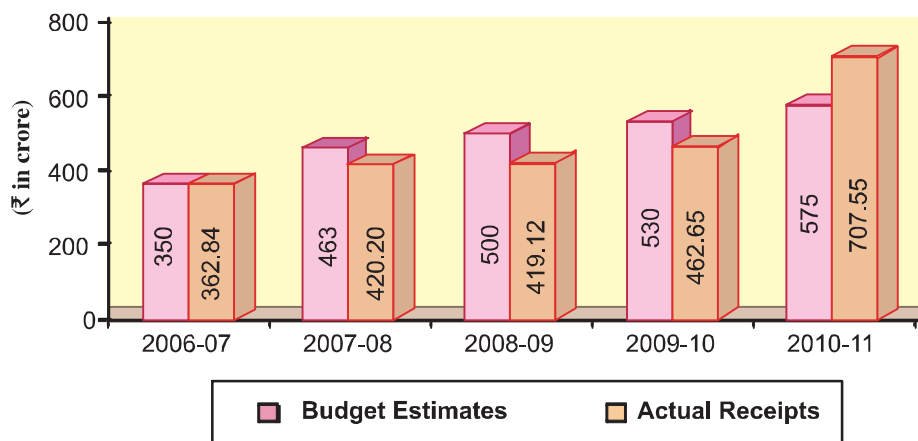
3.2 Trend of receipts

Actual receipts from taxes on vehicles during the period 2006-07 to 2010-11 along with the total tax/non-tax receipts during the same period are exhibited in the following table and graph.

(₹ in crore)

Head of the revenue	Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-a-vis total tax/non-tax receipts
Taxes on vehicles	2006-07	350.00	362.84	(+) 12.84	(+) 3.67	10155.80	3.57
	2007-08	463.00	420.20	(-) 42.80	(-) 9.24	11782.80	3.57
	2008-09	500.00	419.12	(-) 80.88	(-) 16.18	12180.70	3.44
	2009-10	530.00	462.65	(-) 67.35	(-) 12.71	13447.86	3.44
	2010-11	575.00	707.55	(+) 132.55	(+) 23.05	16477.75	4.29

Trend of receipts



3.3 Cost of collection

The gross collection in respect of the other tax and non-tax receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2008-09 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for the year 2009-10 are mentioned below:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2009-10
Taxes on vehicles	2008-09	419.12	14.67	3.50	3.07
	2009-10	462.65	18.96	4.10	
	2010-11	707.55	19.34	2.73	

From the above table it was evident that the percentage of expenditure on collection of taxes on vehicles has come down substantially during the year 2010-11.

3.4 Revenue impact

During the last five years (excluding the current year's report), we through our Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue etc., with revenue implication of ₹ 81.62 crore in four paragraphs and one Information Technology (IT) audit. We have not been intimated about any action taken by the Department

3.5 Internal Audit

The Departments had no internal audit mechanism of their own. The Director of Audit of the Finance Department of Govt. of NCT of Delhi is entrusted with internal audit function for all the offices/Departments of Govt. of NCT of Delhi including Transport Department.

3.6 Results of audit

Test check of records relating to Department of Transport conducted during the year 2010-11 revealed loss of revenue, short levy of tax and other irregularities involving ₹ 4.68 crore in 56 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
	Motor Vehicle Tax		
1.	Computerisation in Motor Vehicles Department	1	0.87
2.	Others	55	3.81
Total		56	4.68

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 5.19 lakh in one case which was pointed out in audit during the year 2010-11 and the same was recovered.

We conducted a Performance Audit on '**Computerisation in the Motor Vehicles Department**', the findings of which we present in the subsequent paragraphs.

3.7 A Performance Audit on “Computerisation in Motor Vehicles Department”

Highlights

- Computerisation for registration of non-transport (private) vehicles through VAHAN was introduced with effect from September 2004 and for issuing driving licenses through customised software with effect from September 2008 in all the 13 Zones of Delhi. Registration of limited commercial vehicles (auto rickshaw, school cab and maxi cab) with VAHAN was implemented in 2008 whereas for other transport vehicles legacy software was being used, which issued paper based Registration Certificates.

(Paragraph 3.7.7)

- The Department failed to formulate IT strategy or a well defined IT Plan and hence the computerization was fragmented and incomplete. Besides, Standard Operating Procedures were not prepared. The SARATHI application was replaced by customised application developed by DIMTS without intimating NIC and MORTH.

(Paragraph 3.7.7.1)

- The Delhi State Registers for VAHAN and SARATHI were not prepared as the Department could populate the State Registers with the data of non-transport (private) vehicles only.

(Paragraph 3.7.7.2)

- The databases were incomplete as certain essential information relating to vehicles owner/licencees details were not captured in the databases. Input controls and validation checks were absent leading to duplicate entries of engine number, chasis number, insurance cover note number, permit number, challan number and fitness certificate number etc. and unreliable database.

(Paragraph 3.7.8 and 3.7.9)

- The parking fee and fitness fee were short recovered to the tune of ₹2.43 lakh and ₹0.74 lakh respectively.

(Paragraph 3.7.10)

- Business Rules were not mapped resulting in short recovery of tax to the tune of ₹ 83.37 lakh on account of one time tax.

(Paragraph 3.7.11.1)

- 660 driving licences were issued irregularly to candidates whose learners' licence had become ineffective due to expiry. 209 persons were issued more than one driving licence.

(Paragraph 3.7.11.2)

- The Department failed to formulate any policy for issuing fancy numbers to vehicles and therefore lost out additional revenue on this account.

(Paragraph 3.7.13)

3.7.1 Introduction

The Transport Department of the Government of NCT of Delhi is responsible for improvement of the public transport system in the NCT of Delhi. The Department has also undertaken computerisation of all its major operations such as registration of vehicles, collection of tax and issue of permits, driving licenses, fitness certificates, pollution control certificates etc. The computerisation of registration activities was conceptualised in April 1991. The Department till then used to generate paper based Registration Certificates (RC). In order to make the system configuration and technical specifications uniform throughout the country use of Smart Card Technology for Driving License and Vehicle Registration was mooted in 1999 by the Ministry of Road Transport and Highways (MORTH) of the Government of India. National Informatics Centre (NIC) developed softwares called VAHAN for implementing the Smart Card technology in registration of vehicles and SARATHI for computerisation of issue of Driving Licence. The implementation of VAHAN started in September 2004 and SARATHI in October 2007.

The Department incurred a total expenditure of ₹ 13.43 crore during 2008-11 on computerisation.

The computerisation activities of the Department were previously reviewed in 2003 and 2008 which were included in the Report of Comptroller and Auditor General of India on Government of NCT of Delhi for the year ended 2004 and 2008 respectively, for which the Government have not furnished any Action Taken Notes.

3.7.2 Organisational set up

The Transport Department is headed by the Pr. Secretary-cum-Commissioner (Transport) who is assisted by one Special Commissioner, three Additional Commissioners, and ten Deputy Commissioners. The Department presently has thirteen Zonal offices headed by Motor Licensing Officers. The computerisation activities in the Department are under the charge of a Special Commissioner who is assisted by a Deputy Commissioner (Computers) along with System Analyst, Programmers, Assistant Programmers.

3.7.3 Scope of Audit

The scope of Information Technology (IT) audit of the Transport Department included examination of selected computerised applications like (i) registration of vehicles, (ii) issuance of Driving Licences, (iii) issuance of National Permits, and (iv) collection of fees and tax. VAHAN, implemented for the non-transport (Private) vehicles, was examined during audit. VAHAN for transport (Commercial) vehicles was implemented for registration of new auto-rickshaws only and therefore the legacy system for the transport vehicles was examined. We reviewed the records and data of the Department during June 2011 to November 2011 for the period from April 2008 to June 2011.

3.7.4 Audit Objectives

The audit objectives of the Performance Audit were to examine whether:

- (i) The extent of implementation of the computerisation and whether the system was adequate to cover all the functions of the Department.
- (ii) the data was accurate and complete.
- (iii) Business rules were mapped into the System.
- (iv) the Systems application delivered what was expected.
- (v) the State and National registers for vehicles registered and driving licences issued exist and were up to date.
- (vi) the issues brought out in the earlier Audit Reports were acted upon.

3.7.5 Audit Criteria

The following audit criteria were used to ascertain whether the objectives stated above were being achieved:

- (i) Delhi Motor Vehicles Taxation Act 1962 (as amended)
- (ii) Delhi Motor Vehicles Rules, 1993 (as amended)
- (iii) The Motor Vehicles Act, 1988
- (iv) The Central Motor Vehicles Rules, 1989.
- (v) The Rules and Regulations of the Government in respect of Department of Transport.
- (vi) Generally accepted best practices in IT.

3.7.6 Audit Methodology

The functions of the organisation were studied through interaction with the officials of the Department and study of documentation available. Data dump was obtained and analysed using Computer Assisted Audit Techniques. The entry conference was held on September 02, 2011. Audit observations were conveyed to the Department to get its response thereon. The responses of the Department were duly considered before finalisation of the report.

Audit Findings

3.7.7 Status of Computerisation

The Department of Transport has thirteen zonal offices headed by Motor Licensing Officers. All these offices have been computerised and using VAHAN application for registration of Non-transport vehicles and SARATHI application for issuance of driving licences.

Transport vehicles are registered at Headquarters Office and its unit offices at Burari. VAHAN (version 2.0) application was implemented in 2008 for limited commercial vehicles (auto rickshaw, school cab, and maxi cab) whereas for other transport vehicles legacy software was being used, which issues paper based Registration Certificate.

The Department was using Enforcement Module of the legacy software for the activities of the enforcement wing.

3.7.7.1 Planning

The Department failed to formulate IT strategy or a well defined IT Plan. The User Requirement Specifications (URS) for any of the applications, documentation of the application system for its maintenance, testing and its results, documented password policy, Disaster Recovery & Business Continuity Plan were not available. The Standard Operating Procedures were not prepared. In some instances same code was being used for different purposes in different databases, thus making it difficult to integrate them. Further, changes made to the system were not documented and were carried out in an ad-hoc manner.

The Agreement for implementation of Smart Card for registration of vehicles using VAHAN was signed in 2003 with 'M/s Shonkh Technologies International Ltd. (STIL)'. The STIL started issuing Smart Card for registration of vehicles in September 2004. The agreement was for 5 years or till it issues 40 lakh Smart Cards. Though STIL had issued more than 42 lakhs Smart Cards as of October 2011, the Department had not taken steps to ensure continuity of services by reviewing their Agreement for continuing with their services or otherwise. The Department neither furnished reply to our enquiry in this regard (January 2012).

The implementation of SARATHI for issuing smart card based driving licences through in-house capability started on pilot basis from October 2007 when M/s HCL showed unwillingness to re-start the services in Mall Road zone after the damage to the system by fire. After successful in-house implementation the same was replicated in Rohini, Raja Garden, and Suraj Mal Vihar zonal offices from February 2008 to June 2008. Meanwhile M/s Delhi Integrated Multi Modal Transit System Ltd. (DIMTS) had proposed to implement smart card based driving licences in the Department. The Department decided to accept their proposal and accordingly an agreement was signed with DIMTS in September 2008 for issue of smart card based driving licences through SARATHI software. The Department/DIMTS faced certain problems¹ while operating SARATHI and requested NIC to modify the software to which NIC responded that it had developed the application according to the requirements of Central Motor Vehicle Act and Rules. However in February 2011, the SARATHI application was replaced by a web based application developed by DIMTS who was given the contract for issuing driving licences without intimating NIC and MORTH.

3.7.7.2 Delhi State Register for VAHAN and SARATHI

The 'VAHAN' and 'SARATHI' are applications developed by National Informatics Centre (NIC) for registration of vehicles and issue of driving licences respectively. The project was mooted by Ministry of Road Transport and Highways, Government of India with the objective to generate a National Register which will provide information to various Government agencies like interstate check post, police department etc.

The Department implemented 'VAHAN' application in September 2004 for non-transport vehicles only. The Department implemented VAHAN (version 2.0) application in 2008 for limited commercial vehicles (auto rickshaw,

¹ (i) Driving validity for non-transport vehicle to a person reaching the age of 50 years was given only for the remaining period up to 50 years. However the Department desired that it be given for 5 years irrespective of age. (ii) The software had no provision for suspension/cancellation/revocation of driving licence. (iii) The software does not accept renewal of driving licence where validity had expired beyond five years. (iv) The software required one year old non-transport three wheeler scooter rickshaw licence before accepting data for three wheeler scooter rickshaw licence (transport).

school cab, and maxi cab). However, it continued to use the legacy software for registration of commercial vehicles which was kept separately for auto rickshaws, vehicle inspection & taxies, and heavy transport vehicles and thus these databases could not be integrated. The SARATHI application meant for issuing driving licences was replaced by customised software developed by a third party.

NIC has customized SARATHI to the requirement of the Central Motor Vehicle Act and Rules as well as particular requirements of States. The Department did not get the SARATHI customized according to their requirements and instead decided to issue driving licences through a third party developed software in a public-private party venture. We saw that after February 2011, since implementation of the web based customized application, the NIC has stopped importing of the licences in the State Register, due to technical problems of non integration of the customized software with SARATHI. For import of licenses issued between 2008 to February 2011, in the State Register, information was awaited from NIC.

Thus the issue of licenses in the State presents a fragmented picture besides an incomplete State Register due to portability issues.

The Delhi State Register could only be populated with the data of non-transport vehicles and thus the State Register for vehicle registration and driving licences could not be prepared in entirety.

The Department may give due priority for formulation of IT strategy, for implementation of VAHAN for registration of all categories of vehicles, and SARATHI for issuance of driving licences.

3.7.8 Data Accuracy

3.7.8.1 Applications for Vehicle Registration

Registration of vehicles is mandatory for private as well as commercial vehicles. Private vehicles are registered through dealers engaged in the sale of such vehicles or directly by the owner and the commercial vehicles are to be registered only by the owner.

The database of the registration of vehicles contained particulars of 13.52 lakh private vehicles and 1.02 lakh Commercial vehicles registered from April 2008 to June 2011.

3.7.8.1.1 Completeness of Database

Incomplete database means missing essential information which prevents business rules from being implemented effectively thereby adversely affecting reliability of the system. The database did not have certain essential information as shown in table given below:

Sl No	Description	Number of Records
Non-Transport Vehicles (VAHAN issuing smart card based registration certificate)		
1.	RC Card chip number found blank	341
Transport Vehicles (Legacy software issuing paper based registration certificate)		
2.	Disposal Date and authority was found blank in case of disposed challans	82
3.	Address of registrants found blank	38
4.	Engine number of the vehicles found blank	52
5.	Insurance cover note details found blank	5765
6.	RC Card chip number found blank	6421

The incompleteness of the database made it unreliable and application of the business rules could not be assured.

3.7.8.1.2 Application Controls

Input controls and validation checks

Input controls and validation checks are vital for the integrity of the data and essential to check against incorrect data being fed. Adequate input and validation controls ensure that data entered is complete and correct. The following deficiencies were noticed indicating absence of input controls and validation checks.

Input Controls

Duplicate entries were seen in the databases as below:

Sl. No.	Description	Number of Records
Non-Transport Vehicles (VAHAN issuing smart card based registration certificate)		
1.	Duplication in engine and chassis numbers of registrants	128
2.	Duplication in Insurance cover note numbers	255901
Transport Vehicles (Legacy software issuing paper based registration certificate)		
3.	Duplication in Insurance cover note numbers	11139
4.	Duplication in All India Tourist Permit numbers	385
5.	Duplication in Permit numbers	118
6.	Duplication in Challan number	4730
7.	Duplication in fitness certificate number	1574

During sample physical verification it was observed that in respect of transport vehicles in 11 out of 45 supplied cases (selected 55) the insurance cover notes, in 10 out of 20 supplied cases (selected 20) of all India tourist permit numbers were same.

Validation Checks

Validation checks were non-existent in the applications as detailed below:

Sl. No.	Description	Number of Records
Non-Transport Vehicles (VAHAN issuing smart card based registration certificate)		
1.	Registration date prior to purchase date	3354
2.	Invalid vehicle insurance date	1070
3.	Vehicle insurance validity date prior to start date	214
4.	Invalid vehicle insurance cover note number	15429
Transport Vehicles (Legacy software issuing paper based registration certificate)		
5.	Permit end date prior to start date	63
6.	Other State vehicles registered without capturing details of NCRB clearance	69

During sample physical verification it was observed that in respect of non-transport vehicles in 3 out of 5 supplied cases (selected 10) the registration date was prior to purchase date.

3.7.9 Application for Driving Licence

Possession of driving licence for the specified class of vehicle is mandatory to drive it in public place. The database as provided to audit contained particulars of 16.68 lakh learners' licences and 12.58 permanent driving licences issued 2008 onwards.

3.7.9.1 Completeness of Database

The database did not have certain essential information as given below and thus was incomplete.

- (i) Date of birth (11 cases) were not found in the database for the permanent driving licence category.
- (ii) Similarly, for the learners' driving licence category, and Date of birth (86 cases) were found not entered.

The incomplete database is unreliable and application of the business rules could not be assured. Reliability of the software was questionable as licence should not be admissible if the basic eligibility criteria were not met.

The Department may strengthen input controls and validation checks to ensure data completeness and correctness. The manual intervention should be completely avoided.

3.7.10 Data Safety & Security

3.7.10.1 Manual Intervention in application for Vehicle Registration

It was observed that rate of taxes/fees were not automatically calculated by the application. The users were given access to feed the amount of tax/fee manually which made it open to mistakes and defeating the purpose of computerisation. It was noticed that there was short recovery of tax/fee as detailed in the following paragraphs:

3.7.10.1.1 Recovery of Parking Fee

The parking fee was to be charged at the rate of ₹ 2000 for LMVs costing upto 4 lakh and ₹ 4000 for others. The examination of the data revealed that parking fee was not charged at the prescribed rates which resulted in short recovery of parking fee to the tune of ₹ 2.43 lakh in respect of 99 non-transport vehicles.

During sample physical verification it was observed that in 6 out of 8 supplied cases (selected 10) the parking fee was less charged.

3.7.10.1.2 Recovery of Fitness Fee

The fitness fee was to be charged at the rate of ₹ 200 for TSR, ₹ 300 for LMVs, ₹ 400 for MMVs, and ₹ 500 for HMs. During test check of the data it was observed that fitness fee was not charged at the prescribed rates which resulted in short recovery of fitness fee to the tune of ₹ 74,400 in respect of 387 transport vehicles.

3.7.11 Non-Mapping of Business Rules

3.7.11.1 Change Management control for Vehicle Registration

The rate of one time tax levied on non-transport vehicles as per Section 3 Delhi Motor Vehicles Taxation Act 1962 (as amended) was revised with effect from 9th June 2010 for (i) two wheelers as 2%, 4%, 6%, and 8% for vehicles costing upto Rupees 25000, 40000, 60000, and above 60000 respectively; (ii) four wheelers as 4%, 7%, and 10% costing upto Rupees 6 lakh, 10 lakh, and above 10 lakh respectively. We observed that new rates were not incorporated in the software from the effective date which resulted in short recovery of tax to the tune of ₹83.37 lakh in respect of 947 non-transport vehicles.

During sample physical verification it was confirmed that in 9 out of 22 supplied cases (selected 33) the tax was less charged.

3.7.11.2 Application for Driving Licence

The rule 14 of Central Motor Vehicle Rules 1989 stipulates that an application for driving licence should be accompanied by effective learners' licence. A learner's licence would be effective for a period of six months from the date of issue during which time he has to also apply for a permanent licence. After

expiry of this period the learners' licence becomes ineffective and the applicant has to re-apply for a fresh learners' licence. An analysis of the database revealed that the Department had irregularly issued as many as 660 driving licences to candidates whose learners' licence had become ineffective due to expiry of time prescribed for its validity.

The Section 6 of the Act prohibits a person to hold more than one driving licence. An analysis revealed that as per the database as many as 209 persons were issued two or more licences resulting in issue of 432 duplicate records. Thus the application lacked in-built controls to track/verify that the applicant had already been issued an effective driving licence.

3.7.12 Other Implementation Issues

3.7.12.1 Contract Management

3.7.12.1.1 Contract for issue of Driving Licences

The Department invited tenders in 1997 to computerise issue of driving licences and awarded the task to M/s Hindustan Computers Limited (HCL) in March 1998 for all nine zones.

As per Agreement, if the total number of licences issued exceeds 2.5 lakh in a year, the HCL was to pay the Department at the stipulated rate of ₹ 5 per licence exceeding 2.5 lakh; ₹ 10 per licence exceeding 2.75 lakh; ₹ 15 per licence exceeding 3.00 lakh; and ₹ 20 per licence exceeding 3.25 lakh. An amount of ₹ 2.18 crore was due from M/s HCL as on March 2008 as reported earlier in the report of Comptroller and Auditor General of India for the year ended 31 March 2008 Volume-II (Revenue Receipts) Government of NCT of Delhi, however no action was found on record for the recovery of the same.

The agreement was on 'Build Own Operate Transfer' (BOOT) basis for a period of five years which expired in December 2003. The Department invited tenders for implementing Smart Card based Driving Licence system in September 2003, November 2004, August 2006, and June 2007, but the same could not fructify. Thus in the absence of any alternative, the agreement with M/s HCL was extended time and again.

3.7.12.1.2 Contract for Registration of vehicles

The lapses in the process of selection and award of work for implementation of Smart Card for registration of vehicles to 'M/s Shonkh Technologies International Ltd. (STIL)' were included in the report of Comptroller and Auditor General of India for the year ended 31 March 2008 Volume-II (Revenue Receipts) Government of NCT of Delhi. Public Accounts Committee (PAC) had also noted lapses and asked for remedial action in March 2006. However the Department had not taken any remedial action till date.

Though STIL started its services in September 2004, the work was only partially executed as implementation of VAHAN at headquarters office did not commence. The contract did not bind the vendor to complete work in a time bound manner. This is detrimental for the interests of the Department as by not doing the work in a time bound manner, STIL could create a situation where its contract with the Department will never end.

Another condition in the contract stipulates that STIL has the right to extend the contract till the issue of 40 lakh smart cards. In case of non extension of contract by STIL a sum of ₹ 50 per card was payable by the Department for the balance number of cards. Though the services of STIL were not satisfactory and Department had issued it show cause notices thrice (in June 2006, July 2007, and May 2008), the Department did not take any concrete step against the vendor. Inadequate monitoring of the contract had compromised the financial interests of the Government.

It was further observed that STIL had issued more than 42 lakh Smart Cards as of October 2011; however the Department had not yet initiated any tender process to award the work afresh or to decide upon continuing with the services of STIL.

The Department needs to give due attention to contract management to monitor the activities of the vendors and safeguards the interests of the Department.

3.7.13 Issue of Fancy Registration Number

While registering a vehicle under Delhi Motor Vehicle Act, the Transport Department, Government of NCT of Delhi normally assigns registration numbers in seriatim. However, on the basis of persistent demand from members of the public for allotment of specific numbers of their choice the Department categorised 136 numbers in a series as VIP/Fancy numbers. The Department allotted VIP/Fancy numbers in respect of two wheelers by charging prescribed additional fee. The VIP/Fancy numbers in respect of four wheelers/LMV (private/non-transport) are being allotted by the office of Minister (Transport) generally on the request of the individuals recommended by prominent persons.

The Cabinet in its decision No. 1252 dated 06/08/2007 decided to freeze, forthwith, allotment of fancy numbers for all motor vehicles of all descriptions. It was also decided that the State Transport Authority should not register any fancy number which may have already been allotted. The Cabinet further decided that the allotment of fancy numbers would remain frozen till such time as the Transport Department formulates a new policy in the matter. The Department prepared a policy for allotment of VIP/fancy numbers and sought approval of the Cabinet. However, the Cabinet vide its decision No. 1338 dated 24/12/2007 deferred the matter.

The Department started issuing VIP/Fancy numbers for two wheelers w.e.f. 28/03/2008 without the approval from the Cabinet. Also for LMV the Department started issuing VIP/Fancy numbers for official vehicles w.e.f. 14-02-2008 and then for private vehicles w.e.f. 13/10/2009. The Department had issued fancy numbers to 5778 vehicles from 1 April 2008 onwards (2519 for two wheelers and 3259 for LMVs). Further, the Department de-classified nine numbers viz. 1111, 2222, 3333, 4444, 5555, 6666, 7777, 8888, and 9999 from the list of fancy numbers of four wheeled vehicles. The Department had issued such de-classified fancy numbers to 1558 vehicles (582 for two wheelers and 976 for LMVs). The Department neither approached the Cabinet nor intimated it before allotting any number from the list of VIP/Fancy numbers.

We observed that, by not formulating fancy number allotment policy, the Department had missed the opportunity of revenue generation as prevailing in other States e.g. the charges for allotment of a fancy number in Tamil Nadu ranged from ₹ 1000 to ₹ 1,00,000, in Punjab it ranged from ₹ 1000 to ₹ 50,000, in Karnataka it ranged from ₹ 6000 to ₹ 75000, and in Andhra Pradesh it ranged from ₹ 1000 to ₹ 50,000 etc.

3.7.14 Permits

3.7.14.1 Application for National Permits

National Permit (NP) was introduced in 1975 with the objective of encouraging long distance road transport. NP is a permit issued for a public carrier (goods vehicle) for operation in a minimum of three contiguous states besides the home state chosen for operation by the applicant for such a permit. The home state charges authorisation fee and composite fee for issuing the NP valid for one year. Authorisation fee is kept by home state and composite fee is sent to the concerned States. Subsequently the Ministry of Road Transport and Highways, Government of India vide its notification dated 7th May 2010 implemented new NP system whereupon authorisation fee was increased from ₹ 500 to ₹ 1000 and instead of composite fee a consolidated fee of ₹ 15000 was to be paid by the NP applicant which will be operative throughout the country. The consolidated fee would be distributed among the States by Central Government on pro rata basis. The share of the Delhi Government was ₹ 606.

NIC developed the new web based NP system. The application system was implemented by the Department since September 2010. To obtain an NP, the applicant applies to the Department of Transport with relevant documents. The Department accesses the NIC portal and fills up the requisite information. The applicant pays the authorization fee to the Transport Department. The applicant can then pay consolidated fee either online or through cash. In case of cash payment, system generates a challan for depositing the consolidated fee in the designated bank. The bank subsequently uploads the payment status

after two days excluding the day of transaction. The applicant then goes to the Department where a National Permit generated electronically from the web portal is issued. The Department had issued 12767 National Permits during September 2010 to March 2011 using online application as detailed below:

SI No	Period	NP issued (Delhi)	NP issued (All India)	Percentage of Delhi vis-à-vis All India NP issued
1	September 2010 to March 2011	12767	421305	3.03

Since the Department has not implemented VAHAN for transport vehicle, there is no State and National Register for transport vehicles registered in Delhi. As a result, neither the Department nor other States are in a position to verify vehicle/owner/permit details.

3.7.15 Conclusion

The Department did not implement VAHAN and SARATHI with cohesive planning strategies, resulting in fragmented computerisation. Transport vehicles not registered through VAHAN and licences issued through customised software were not imported into the State Register due to portability issues. Thus despite huge expenditure the computerisation is incomplete and does not serve the overall objectives of complete State and National Databases. The database lacked completeness, Input controls and validation checks. Manual intervention in the application software could not be avoided. The Department also failed to formulate any policy for issuing fancy numbers to vehicles thereby forgoing additional revenue. The Department also could not formulate and manage contracts in a manner which protect interests of the Government and monitor the activities of the vendors effectively.

3.7.16 Recommendations

- (i) The Department may develop an IT strategy and an IT Plan to avoid ad hoc and fragmented implementations.
- (ii) Department may ensure preparation of Delhi State Register for VAHAN and SARATHI.
- (iii) Input controls and validation checks may be strengthened to ensure data completeness and correctness.
- (iv) Manual interventions in the application system may be completely avoided.
- (v) Contract management may be formulated in a manner which help monitoring the activities of the vendors and also protect interests of the Department and citizens.

CHAPTER IV
NON-TAX REVENUE

EXECUTIVE SUMMARY

Highlights of this Chapter	In this Chapter, we present a Performance Audit on “ Interest Receipts ” of the State Government, wherein we have pointed out several system and compliance deficiencies relating to accountal/disbursal of loans given by the State Government to various Departments/ Government Bodies/PSUs and recovery of interest thereon.
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Our conclusion	Interest receipts were largely by way of book adjustments by sanctioning fresh loans. The Administrative Departments had not ensured proper records of loans sanctioned and recoveries done.
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CHAPTER IV NON-TAX REVENUE

4.1 Tax administration

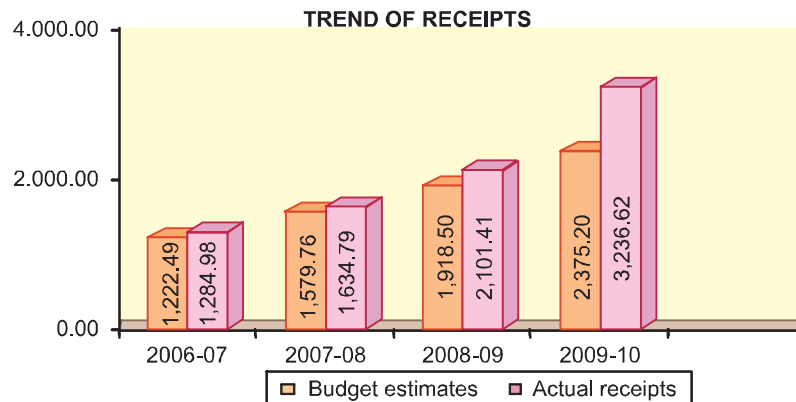
Non-tax revenue of the Government of NCT of Delhi (GNCTD) comprises mainly of the interest receipts. Interest receipts include interest recovered on loans and advances granted to various public sector undertakings, local bodies, Co-operative Societies etc., and individuals, including State Government employees. Loans sanctioned carry different rates of interest and are required to be recovered within the stipulated periods along with interest.

The Administrative Departments process the proposals for grant of loans and advances received from the loanee organisations and sanction the loan with the concurrence of the Finance Department, GNCTD. Pay and Accounts Office of the Administrative Department concerned is required to maintain detailed accounts of sanctioned loans and keep watch over repayment of the principal amount and realisation of its interest.

4.2 Trend of receipts

Budget estimates, actual receipts, variations in actual receipts over budget estimates and percentage of variation for the period 2006-07 to 2009-10 in respect of interest receipts along with the total receipts and non-tax receipts of the State are mentioned in the following table:

(₹ in crore)								
Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total receipts of the State	Non Tax revenue	Percentage of actual interest receipts vis-a-vis total tax receipts	Percentage of actual interest receipts vis-a-vis Non-tax receipts
2006-07	1222.49	1284.98	62.49	5.11	11619.38	1463.58	11.06	87.80
2007-08	1579.76	1634.79	55.03	3.48	13599.50	1816.70	12.02	89.99
2008-09	1918.50	2101.41	182.91	9.53	14481.42	2300.72	14.51	91.34
2009-10	2375.20	3236.62	861.42	36.27	16915.25	3467.40	19.13	93.34



It is seen that during the period of 2006-07 to 2009-10, the actual receipts consistently exceeded the budget estimates, being more than 36 *per cent* in the year 2009-10, thereby indicating unrealistic budget estimates.

4.3 Internal audit

The Directorate of Audit under the Finance Department is entrusted with the internal audit of all offices/Departments of the Government.

The Government stated that internal audit will be undertaken shortly before the replies are given and replies will incorporate the steps taken by the Finance Department to address the issue of non-maintenance of records.

4.4 Results of audit

Test check of records relating to interest receipts and Public Works Department conducted during the year 2010-11 and 2011-12 revealed short/non-levy and collection of interest receipts, lapsed deposits not credited into Government account and other irregularities involving ₹ 0.25 crore in 18 cases which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	Performance audit on Interest Receipts	1	NIL
2.	others	17	0.25
Total		18	0.25

A Performance Audit on “Interest Receipts” revealed short/non-levy and collection of interest as discussed in the succeeding paragraphs.

4.5 Performance audit on Interest Receipts

Highlights

- The loans sanctioned by the Government of NCT of Delhi (GNCTD) during the period 2006-07 to 2009-10 increased by 41 *per cent* and the outstanding loans stood at ₹ 39219.78 crore at the end of March 2010. The recovery of loans ranged from 0.76 to 2.63 *per cent* only. The interest receipts which rose to ₹ 3236.62 crore were largely by way of book adjustments by sanctioning further loans to cash strapped bodies of the GNCTD.

(Paragraph 4.5.6 and 4.5.8)

- The budgeting of interest receipts by the Administrative Departments was unrealistic in absence of proper records and there was no internal audit of loans sanctioned by the Government of NCT of Delhi

(Paragraph 4.5.7 and 4.5.10)

- Government utilised major portion of its tax revenue (47 per cent) to discharge its own debt liability and that of its loanees.

(Paragraph 4.5.8.1)

- There was no mechanism for levy, collection and monitoring of interest receipts as the PAOs and Administrative Departments had not maintained the loan records, watched repayment of loans and penal interest was neither levied nor collected.

(Paragraph 4.5.9)

4.5.1 Introduction

Interest receipts which were at ₹ 1284.98 crore in 2006-07 rose to ₹ 3236.62 crore in 2009-10 and constituted 11 to 19 per cent of the total revenue and 88 to 93 per cent of the non-tax revenue of the Government of NCT of Delhi (GNCTD). This comprises interest recovered on loans and advances granted by the State Government to various public sector undertakings, local bodies, Cooperative Societies etc., and individuals, including State Government employees. Loans sanctioned carry different rates of interest and are required to be recovered within the stipulated periods along with interest.

As per the system in place, loanee organisations submit their proposals for grant of loans and advances to the concerned Head of the Administrative Department which processes and sanctions the loan with the concurrence of the Finance Department. The Drawing and Disbursing Officer (DDO) of the concerned Administrative Department draws the loan amount from the concerned Pay and Accounts Office (PAO) and disburses it to the loanee through Electronic Clearing System (ECS)/Real Time Gross Settlement (RTGS).

Pay and Accounts Office of the Administrative Department concerned is required to maintain detailed accounts of sanctioned loans and keep watch over repayment of the principal amount and realisation of its interest. Any default in payment, either of the principal amount or interest by the loanees should be reported without delay by the PAO concerned to the Administrative Departments which should take suitable measures for enforcing repayments of amounts overdue. If the Administrative Department enforces any penal interest upon the overdue instalment of principal and/or interest, the PAO concerned should watch its recovery.

4.5.2 Audit Scope and Methodology

The Performance Audit deals with loans sanctioned by the GNCTD to its own bodies/Corporations/PSUs. Based on the quantum of loans disbursed, we examined the records of five major loans sanctioning Departments (Urban Development/Power, Transport, Rural Development, Industries and Welfare of SC/ST/OBC) of the GNCTD and their respective Pay and Accounts Offices

between August 2011 and November 2011. 99 per cent of the loans sanctioned between 2006-07 and 2009-10 by GNCTD were covered in the Performance Audit.

4.5.3 Audit Objectives

We conducted the Performance Audit with a view to examine:

- whether loans were sanctioned after following due procedures and the sanction orders specified the terms of repayment and interest provision;
- whether the system and procedures for levy, collection and monitoring of interest receipts were adequate; and
- efficiency and effectiveness of the internal controls for monitoring of loans outstanding and interest receipts due.

4.5.4 Audit criteria

The audit objectives were bench marked against the following criteria:

- Provisions of General Financial Rules and Civil Accounts Manual
- Terms and conditions contained in the loan Sanction orders.

4.5.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the five¹ Administrative Departments, Planning Department and Finance Department and four² Pay and Accounts Offices and Principal Accounts Office of the GNCTD in providing necessary information and records for the audit. The draft review was forwarded to the Government in November 2011. The exit conference was held on 15 December 2011 in which the results of audit and recommendations were discussed with the Special Secretary (Finance), GNCTD. The replies of the Government during the exit conference and at other points of time have been appropriately incorporated in the respective paragraphs.

The audit findings are discussed in succeeding paragraphs.

4.5.6 Position of Outstanding Loans

A study of Finance Accounts of GNCTD for the period 2006-07 to 2009-10 has shown the following position of outstanding loans:

¹ Urban Development/Power, Transport, Rural Development, Industries, Welfare of SC/ST/OBC

² PAO-VI, PAO-X, PAO-XI and PAO-XXIV

(₹ in crore)

Years	Opening balance of outstanding loans	Loans issued during the year	Recoveries made during the year	Closing balance of outstanding loans	Recoveries as a percentage of opening balance of loans	Percentage of increase in amount of loan during the year
2006-07	27724.60 (-) 323.19 ³	3294.24	228.64	30467.02	0.80	11.88
2007-08	30467.02 (-) 3467.00 ⁴	3649.55	231.26	30418.31	0.76	11.97
2008-09	30418.31	4217.32	799.00	33836.63	2.63	13.86
2009-10	33836.63	5701.30	318.15	39219.78	0.94	16.85

Source: Finance Accounts, GNCTD

It can be seen that there was a consistent increase in the loans advanced, since the total loans under different heads of accounts went up by 41 per cent during the last four years and stood at ₹ 39219.78 crore as on 31st March 2010. The life of loans advanced to loanees of different sectors ranged between 5 to 15 years and hence, on an average in one particular year, there should have been minimum recovery of 7 to 20 per cent of the opening balance of loan. However, we saw that the percentage of the recovery of loan was poor, ranging between 0.76 to 2.63 per cent only.

The outstanding principal of loan due at the end of the financial year against which recoveries for the year were effected could not be ascertained as the loan ledgers were not maintained by the PAO as discussed later in this report.

System Deficiencies

4.5.7 Budget estimates versus actual interest receipts

Budget estimates, actual receipts, variations in actual receipts over budget estimates and percentage of variation for the period 2006-07 to 2009-10 in respect of interest receipts on loans sanctioned by Government of NCT of Delhi to various organisations/corporations are mentioned in the following table:

³ represents prior period adjustment of ₹ 323.19 crore due to conversion of loan into equity

⁴ represents prior period adjustment of ₹ 3452 crore due to conversion of loan into equity & 15 crore due to conversion of loan into grant-in-aid.

(₹ in crore)

Years	Budget Estimates	Actual Receipts	Excess	Percentage of Excess
2006-07	1222.49	1284.98	62.49	5.11%
2007-08	1579.76	1634.79	55.03	3.48%
2008-09	1918.50	2101.41	182.91	9.53 %
2009-10	2375.20	3236.62	861.42	36.27%

Source: Finance Accounts and Budget Estimates of GNCTD

Interest receipts are known well in advance as they are based on loan sanctioned and outstanding at the given time and hence, it should be feasible to estimate the recoveries fairly accurately. From the above table it is seen that during the period of 2006-07 to 2009-10 the actual receipts consistently exceeded the budget estimates, being more than 36 per cent in the year 2009-10.

4.5.7.1 Non-submission of budget estimates by Administrative Departments

We noticed that the Administrative Departments did not prepare and submit the budget estimates of interest receipts to the Finance Department during the period 2006-07 to 2009-10. Instead the Finance Department prepared the budget estimates on the basis of information/feedback which was called by the Planning Department from the loanees.

Urban Development Department and Department for Welfare of SC/ST/OBC in their reply have confirmed that these Departments do not prepare and submit the annual budget estimates on interest receipts to the Finance Department. Other Departments (i.e. Transport, Industries, Rural Development and Power) though confirmed verbally, have not confirmed in writing the non-preparation of budget estimates of interest receipts.

Reasons for non-preparation of budget estimates and variations between budget estimates and actual interest receipts, though called for (August 2011) have not been furnished by the concerned Departments including the Finance Department.

4.5.7.2 Projection of interest dues by PAOs versus actual receipts

Though, PAOs were not maintaining the detailed loan ledgers, figures of interest due from different loanees were furnished to audit on the basis of available record. It was observed that there was no relation of the budgeted figures with the projections of interest due given by the PAOs. Compared to these figures the budgeted figures were on much lower side. The actual receipts also fell short of the projected dues from the three main loanees (i.e.

Delhi Jal Board, Delhi Transport Corporation and Municipal Corporation of Delhi) of the GNCTD as detailed below:

(₹ in crore)

Year	Interest due from DJB as per PAO-VI	Actual Interest receipts from DJB	Excess projection of interest due by PAO-VI	Interest due from DTC as per PAO-XI	Actual Interest receipts from DTC	Excess projection of interest due by PAO-XI	Interest due from MCD as per PAO-VI & XI	Actual Interest receipts from MCD	Excess projection of interest due by PAO-VI & XI
2006-07	2768.66	474.34	2294.32	645.59	602.42	43.17	1144.39	109.69	1034.70
2007-08	3201.94	586.62	2615.32	869.73	767.07	102.66	364.68	226.02	138.66
2008-09	3396.25	609.40	2786.85	1162.50	1007.80	154.7	1073.45	198.32	875.13
2009-10	3396.25	1666.67	1729.58	1437.00	1316.28	120.72	1073.45	190.72	882.73

Source: Figures supplied by the PAOs and sanction orders of Administrative Departments

The above excess projection of interest dues by PAOs over the actual receipts indicates that there was no co-ordination between the Administrative Departments and the PAOs.

Thus, due to the fact that the Administrative Departments were not submitting the budget estimates to the Finance Department & PAOs' projections of interest due were on much higher side and there was consistent excess of actual interest receipts over the budget estimates, the entire budgeting process of interest receipts is questionable. Finance Department needs to streamline the budget process to make it realistic.

In the exit conference the Government stated that since the PAOs, who are the basic record keepers, are not maintaining and updating the loan ledgers, the whole process of budgeting stands compromised. However, PAOs have now been instructed to start the process of construction of records and same will be achieved shortly.

We do not agree with the reply since budget estimation is an executive function and the PAOs are only record keepers to provide inputs to the Departments regarding outstanding balances and interest due. The administrative Departments and the Finance Department have not ensured realistic budgeting with proper co-ordination and getting correct figures of loan balances from the PAOs.

4.5.8 Realisation of Interest receipts by book adjustment

We observed that major portion of interest receipts of the Government of NCT of Delhi was from the interest realised from public utilities (DJB and DTC) through book adjustments (further loans were sanctioned for repayment of interest liability and instead of releasing the amount of loan, the same was credited to Major head 0049: Interest Receipts as book adjustment) and

adjustment from Basic Tax Assignment (BTA) to the local bodies on the recommendations of the Delhi Finance Commission, while interest receipts from other sources, which was realised in cash, was meagre as detailed in the following table:

(₹ in crore)

Year	Interest receipts realized				Interest receipts from other sources	Total Interest receipts	Percentage of book adjustments to Interest receipts	Tax revenue	Percentage of book adjustment to tax revenue
	Through book adjustment from DJB	Through book adjustment from DTC	Through adjustment from BTA to MCD	Total					
2006-07	474.34	602.42	109.69	1186.45	98.53	1284.98	92.33%	10155.80	11.68%
2007-08	586.62	767.07	226.02	1579.71	55.08	1634.79	96.63%	11782.80	13.41%
2008-09	609.40	1007.80	198.32	1815.52	285.89	2101.41	86.40%	12180.70	14.91%
2009-10	1666.67	1316.28	190.72	3173.67	62.95	3236.62	98.06%	13447.86	23.60%

Source: Finance Accounts, GNCTD, Non-plan sanction orders of UD & Transport Departments and adjustment from BTA orders of UD Department.

It can be seen that 86 to 98 per cent of the interest recoveries were made by way of book adjustments. In the absence of figures from loan ledgers of the Administrative Department, the basis for the above book adjustments is not known/nor verifiable.

4.5.8.1 Servicing of Debt liability by GNCTD

GNCTD does not have any powers to borrow from the open market. It can borrow from the Central Government only. It can also not stand guarantee to any loan raised by any of its Public Sector Undertakings or Local Bodies working under its domain. It does not have any separate Public Account nor does it have any separate account with the Reserve Bank of India (RBI). Its cash balance forms a part of the account of the Government of India with the RBI.

GNCTD receives loans from the Union Government mainly in the form of small savings loans from National Small Savings Fund (NSSF) of Government of India. The position of outstanding loans of Delhi Government and its debt servicing liability during the period 2006-07 to 2009-10 is as under:

(₹ in crore)

Year	Outstanding debt at the beginning of the year	Loans received during the year	Loans repaid during the year	Outstanding debt at the end of the year	Interest paid during the year	Tax revenue during the year	Percentage of interest paid to tax revenue
2006-07	21699.65	4002.14	133.75	25568.04	2210.23	10155.80	21.76%
2007-08	25568.04	746.02	975.09	25338.96	2504.34	11782.80	21.25%
2008-09	25338.96	428.74	386.03	25381.67	2511.87	12180.70	20.62%
2009-10	25381.67	1769.00	606.47	26544.20	2472.93	13447.86	18.39%

Source: Finance Accounts, GNCTD

While the GNCTD was unable to recover its dues from the loanees in cash and has been resorting to disbursement of non-plan loans to organisations exclusively for the purpose of interest repayment and making book adjustments of the interest dues, the GNCTD has been consistently repaying its loans and interest thereon to the Government of India. Thus, as much as 47 per cent of the tax revenues were being used by the GNCTD for debt servicing of its own and its loanees.

A comparative statement of the loans repaid and received back and interest paid and received by the GNCTD during the period 2006-07 to 2009-10 is as under:

(₹ in crore)

Year	Position of loans repaid and interest paid by GNCTD to Central Government			Position of loans recovered and interest collected by GNCTD from loanees			Tax revenue during the year	Percentage of amount repaid to central government to tax revenue	Percentage of book adjustment to tax revenue	Percentage of tax revenue used by Delhi Govt. to discharge its own debt liability and to help its loanees service their debt liability
	Loans repaid during the year	Interest paid during the year	Total amount repaid to Central Govt.	Recoveries made during the year	Interest Receipts during the year	Interest receipts realised through book adjustments				
2006-07	133.75	2210.21	2343.96	228.64	1284.98	1186.45	10155.80	23.08%	11.68%	34.76%
2007-08	975.09	2504.34	3479.43	231.26	1634.79	1579.71	11782.80	29.53%	13.41%	42.94%
2008-09	386.03	2511.87	2897.90	799.00	2101.41	1815.52	12180.70	23.79%	14.91%	38.70%
2009-10	606.47	2472.93	3079.40	318.15	3236.62	3173.67	13447.86	22.90%	23.60%	46.50%

Source: Finance Accounts, GNCTD

In the exit conference Government stated that DTC and DJB have been asked to improve their finances and from 2011-12 onwards, no further loans will be issued to these public utilities for debt servicing. Instead grants will be issued depending upon their performance.

4.5.9 Non-maintenance of loan records by PAOs and Administrative Departments

Though five⁵ Administrative Departments reviewed by us were requested (August & September 2011) to furnish information regarding the amount of overdue principal and accrued interest as well as loanee-wise position of the loans, the information was not furnished till date (January 2012). Scrutiny of records of five Administrative Departments and their corresponding four PAOs revealed that the PAOs were neither maintaining the detailed accounts of sanctioned loans nor keeping a watch over repayment of principal and realisation of interest. Scrutiny of loan registers in the PAOs revealed that only date and amount of loan sanctioned had been posted in the registers. Further working on instalments of principal outstanding, recoveries and interest as shown in table above Para 4.5.8.1 were not found recorded. As a result, no cases of default in payment, either of principal or interest by the loanees were found reported by the PAO concerned to the Administrative Departments during the period 2006-07 to 2009-10. Thus, penal interest could not have been levied and collected.

The Administrative Departments were required to conduct a close review of the reported cases of defaults in repayment of instalments of principal and/or interest due and take suitable measures for enforcing repayments of overdues and to levy penal interest upon the overdue instalment of principal and/or interest. No mechanism was evolved for conducting such review by the Administrative Departments. In the absence of receipt of any communication from the PAO concerned on the default cases, the Administrative Departments did not take any initiative for proper maintenance of records either by themselves or by the PAO concerned. In absence of the required loan records, the Departments of GNCTD were dependent on the loanees for such information, which in itself is a faulty practice.

Thus, due to the failure of the Administrative Departments and Pay and Accounts Offices to maintain the records relating to recovery of principal and interest on the loans sanctioned to various organisations, the complete information regarding position of overdue principal and interest could not be ascertained by us.

During a discussion with the Controller of Accounts in October 2011, the fact of non-maintenance of records was admitted. It was, however, assured that the information based on which records were to be maintained was available with them and the records would be constructed from it within a reasonable timeframe which would be intimated to Audit.

⁵ Urban Development/Power, Transport, Rural Development, Industries, Welfare of SC/ST/OBC

In the exit conference Government stated that the PAOs have been instructed to start the process of construction of records and same will be achieved shortly. The computerisation process has also been initiated and will be in place in a year's time. In future the monitoring of repayment of loans will be strictly watched and a cell will be formed in the Finance Department for this specific purpose.

4.5.10 No internal audit of loans

The Internal Audit Wing of the Government of NCT of Delhi had not conducted any audit of the process of loan sanction and repayment and its monitoring during the period 2006-07 to 2009-10. Therefore there was no mechanism which would have alerted the Government to the serious situation of non-maintenance of records and non-watching of loan repayment.

In the exit conference the Government stated that internal audit will be undertaken shortly before the replies are given and replies will incorporate the steps taken by the Finance Department to address the issue of non-maintenance of records.

Compliance Deficiencies

4.5.11 Short receipt of interest due and non-levy of penal interest on overdues due to absence of co-ordination between PAOs and Administrative Departments

In the absence of any basic data, we relied on the figures appearing in the Finance Accounts of the GNCTD for the period 2006-07 to 2009-10 and calculated⁶ the debt liability (principal, interest & penal interest) of loanees of different loan sanctioning Departments.

Though, the Administrative Departments and the concerned PAO(s) were not maintaining the record to watch the recovery of loans and interest accrued from the loanees, PAOs have furnished the information regarding interest due, recovered and overdue from the loanees on the basis of the available records. Further, loanees have also furnished the same information for the period under review.

A loanee-wise comparative study of figures of interest due, recovered and overdue as supplied by the PAOs and loanees and worked out by us on the basis of the Finance Accounts of GNCTD showed a wide variation in the figures as detailed below:

⁶ Amount of principal due is calculated on the opening balance of loans outstanding, amount of interest due is calculated on the closing balance of loans outstanding and penal interest is calculated on the total of principal and interest overdue.

(a) Delhi Jal Board (Urban Development Department)

(₹ in crore)

Year	Interest due as per Audit (MH 6215 & 7615)	Interest due as per DJB	Interest paid by DJB during the year	Interest overdue as per audit	Interest overdue as per DJB	Interest due as per PAO-VI	Interest paid by DJB as per PAO-VI	Interest overdue as per PAO-VI	Penal interest due as per Audit
2006-07	1597.74	1013.83	474.34	1123.40	539.49	2768.66	474.34	2294.32	53.51
2007-08	1820.36	1188.90	586.62	1233.74	602.28	3201.94	586.62	2615.32	59.40
2008-09	2072.29	1411.52	609.40	1462.89	802.12	3396.25	0	3396.25	69.25
2009-10	2472.48	1663.45	1666.67	805.81	(-) 3.22	3396.25	1666.67	1729.58	55.19
Total				4625.84	1943.89			10035.47	237.35

Source: Finance Accounts, GNCTD and figures supplied by the PAOs and the loanee.

(b) Municipal Corporation of Delhi (Urban & Rural Development Departments)

(₹ in crore)

Year	Interest due as per Audit (MH 6217, 6515 & 7615)	Interest due as per MCD	Interest paid by MCD during the year ⁷ as per adjustment from BTA	Interest overdue as per audit	Interest overdue as per MCD	Interest due as per PAO-VI (MH 6217 & 7615) and PAO-XI (MH 6515)	Interest paid by MCD as per PAO-VI (MH 6217 & 7615) and PAO-XI (MH 6515)	Interest overdue as per PAO-VI (MH 6217 & 7615) and PAO-XI (MH 6515)	Penal interest due as per Audit
2006-07	196.64	114.57	109.69	86.95	4.88	1144.39	109.89	1034.5	9.70
2007-08	209.45	116.69	226.02	(-) 16.57	(-)109.33	364.68	226.19	177.05	8.35
2008-09	210.60	171.72	198.32	12.28	(-)26.6	1073.45	807.87	342.7	10.06
2009-10	200.32	176.63	190.72	9.60	(-)14.09	1073.45	190.86	998.27	10.57
Total				21.88	(-)40.69			2552.52	38.68

Source: Finance Accounts, GNCTD and figures supplied by the PAOs and the loanee.

⁷UD Department recovered the amount of interest from MCD on loans released under various Major heads by adjusting from Basic Tax Assignment of the MCD and collectively credited the same to MH 0049: Interest Receipts. The figure of interest paid by MCD also includes interest recovered on loans released under other Major Heads (i.e. MH 6075, 6216 & 6403). UD Department, however, could not furnish head-wise details of recovery of amount of interest and therefore the figure of interest recovered exclusively on loans released to MCD under MH 6217, 6515 & 7615 could not be ascertained.

(c) Delhi Transport Corporation (Transport Department)

(₹ in crore)

Year	Interest due as per Audit (MH 7055)	Interest due as per DTC	Interest paid by DTC during the year	Interest overdue as per audit	Interest overdue as per DTC	Interest due as per PAO-XI	Interest paid by DTC as per PAO-XI	Interest overdue as per PAO-XI	Penal interest due as per Audit
2006-07	578.73	647.06	602.42	-23.69	44.64	645.59	602.42	43.17	10.49
2007-08	730.19	871.20	767.07	-36.88	104.13	869.73	767.82	101.91	13.84
2008-09	927.28	1167.51	1007.80	-80.52	159.71	1162.50	1007.80	154.70	17.46
2009-10	1156.85	1437.09	1316.28	-159.43	120.81	1437.00	1316.28	120.72	22.17
Total				-300.52	429.29			420.50	63.96

Source: Finance Accounts, GNCTD and figures supplied by the PAOs and the loanee.

(d) Delhi Khadi & Village Industries Board (Industries Department)

(₹ in lakh)

Year	Interest due as per Audit (MH 6851)	Interest paid by DKVIB during the year	Interest over-due as per audit	Interest due as per Industries Deptt. ⁸	Interest paid by DKVIB during the year	Interest over-due as per Industries Deptt.	Interest due as per PAO-XXIV	Interest paid by DKVIB as per PAO-XXIV	Interest overdue (including penal interest) as per PAO-XXIV	Penal interest due as per Audit
2006-07	30.25	3.37	26.88	34.60	0	34.60	12.62	0	34.59	-1.80
2007-08	36.47	3.74	32.73	63.95	0	63.95	34.59	0	97.44	2.30
2008-09	33.11	1.33	31.78	104.06	0	104.06	97.44	0	104.06	1.96
2009-10	35.47	0	35.47	146.68	0	146.68	104.06	0	119.99	2.73
Total			126.86			349.29			356.08	5.19

Source: Finance Accounts, GNCTD and figures supplied by the PAOs and the Department.

⁸ Reply from DKVIB is still awaited. However, the industries Department has furnished the reply and same has been incorporated in the table.

(e) Indraprastha Power Generation Company Limited (Urban Development Department)

(₹ in crore)

Year	Interest due as per Audit (MH 6801)	Interest paid by IPGCL during the year	Interest overdue as per audit	Interest due as per IPGCL	Interest paid by IPGCL during the year	Interest overdue as per IPGCL	Interest due as per PAO-VI	Interest paid by IPGCL as per PAO-VI	Interest overdue as per PAO-VI	Penal interest due as per Audit
2006-07	18.38	0	18.38	15.68	0	15.68	11.85	0	11.85	0.72
2007-08	19.63	0	19.63	19.53	0	19.53	43.78	0	43.78	0.12
2008-09	18.06	15.21	2.85	93.44	28.95	64.49	66.92	0.90	66.02	0.01
2009-10	16.49	0	16.49	82.54	0	82.54	66.92	0	66.92	0.36
Total			57.35			182.24			188.57	1.21

Source: Finance Accounts, GNCTD and figures supplied by the PAOs and the loanee.

In the absence of detailed loan ledgers, there is no apparent basis for the figures supplied by the PAOs. Yet, it is clear from the figures supplied by the PAOs and the loanees that the interest due consistently exceeded the actual interest receipts and therefore there was overdue of interest receivable. However, since no case of default in payment, either of principal or interest by the loanees, was reported by the PAO concerned to the Administrative Departments, penal interest could not have been levied and collected on the overdue of principal and interest.

In the exit conference the Government stated that the Administrative Departments and PAOs will try and reconcile the figures and suitable reply to audit observations will be given in time.

4.5.12 Deficiencies in loan sanctioning process by Administrative and Finance Departments

4.5.12.1 Relaxation of conditions for sanction of further loan

Scrutiny of records relating to Plan loans sanctioned to DJB and MCD revealed that the Administrative Department as well as the Planning/Finance Department failed to exercise any effective control over the sanctioning of loans and their proper and timely usage. As a pre-condition to issue of further loans, the loan sanctioning orders clearly provided for submission of the utilisation certificates, physical progress report in respect of earlier instalment of loans and annual action plan for the year along with targets fixed for the plan schemes. Also, the MCD and DJB were required to submit audited statements of accounts for the year as per the GFRs.

The sanction orders further provided that the released funds should be utilised on the Plan scheme for which these were sanctioned and should not be diverted to any other scheme under any circumstances.

We observed that all these pre-conditions to keep a check over the utilisation of amount of loans by the MCD and DJB were repeatedly relaxed or not strictly complied with, as mentioned below:.

4.5.12.1.1 Municipal Corporation of Delhi (MCD)

To execute developmental works in the rural and urban areas of the city of Delhi, the Urban Development Department of GNCTD issued Plan Loans of ₹ 693.60 crore to Municipal Corporation of Delhi (MCD) under the Major Head 6217- Loans for Urban Development during the period 2006-07 to 2009-10 as detailed below:

(₹ in crore)		
Year	No. of Plan Schemes	Amount of Plan Loan
2006-07	05	170.00
2007-08	05	188.30
2008-09	05	178.30
2009-10	06	157.00
Total		693.60

The conditions for submission of the utilisation certificates, physical progress report in respect of earlier instalment of loans and annual action plan for the year along with targets fixed for the plan schemes were continuously relaxed which resulted in diversion of funds as discussed below:

(a) Diversion of Funds

It was pointed in the C&AG's Audit Report on the Government of NCT of Delhi (Civil & Commercial) for the year ended March 2009 that for works undertaken by MCD under the Plan Scheme "Development works in regularised un-authorised colonies" during the period 2006-07 to 2008-09, in complete disregard to the conditions of sanction orders, MCD transferred ₹ 20.40 crore from Plan Head to Non-Plan head in the form of supervision and establishment charges. **Approval of the Administrative Department/ Finance Department was not obtained for such diversion.** The fact was also not depicted in the utilisation certificates subsequently submitted by the MCD to the Administrative Department.

This diversion of funds from Plan to Non-Plan head could not be detected by the Administrative/Finance Department, as these agencies did not insist on a regular inflow of utilisation certificates and physical progress report of works undertaken by the MCD, as prescribed in the loan sanctioning orders.

4.5.12.2 Loans sanctioned to State Corporations

4.5.12.2.1 Transport Department- Delhi Transport Corporation (DTC)

The Transport Department of GNCTD issued Plan and Non-Plan loans to Delhi Transport Corporation (DTC) under the Major Head 7055- Loans for Road Transport.

During the period 2000-01 to 2006-07, Plan loans of ₹ 542.18 crore were issued to DTC to finance its capital expenditure for procurement of buses and development of related infrastructural facilities of bus depot/terminal etc. It was observed that since the year 2007-08 no plan loan was issued to DTC. Instead, the capital expenditure of DTC was financed in the shape of equity capital. During the period 2007-08 to 2009-10, a total of ₹ 1127.30 crore was invested by the Government of NCT of Delhi in DTC as equity capital. Also, during the year 2009-10, an equity capital of ₹ 120 crore was invested in the DTC under the JNNURM scheme.

DTC is incurring losses since its inception partly due to existing fare structure and issuance of various concessional passes to different sections of the society as a social policy. In the absence of adequate internal resources, the Corporation is dependent on the Non-Plan Ways and Means interest bearing loans from the Government of NCT of Delhi to meet its operating deficit/ salary requirements etc.

During the period 1996-97 to 2006-07, Non-Plan Loans of ₹ 4405.09 crore were issued to DTC. The non-plan deficit/ working loss of DTC was further aggravated due to pay revision based on the recommendations of the 6th Pay Commission. During the years 2007-08, 2008-09 and 2009-10 there was a consistent increase in the Ways and Means loans to DTC and ₹ 1092.07 crore, ₹ 1557.80 crore and ₹ 1981.28 crore respectively were released.

Due to weak financial position of the DTC and its inability to repay the instalments of principal and interest due on the amount of sanctioned Plan and Non-Plan loans in cash, since the year 2002-03 the Government of NCT of Delhi has started making a provision in the annual budget for recovery of interest on loans from DTC and a Non-Plan loan of the similar amount is issued to DTC, not in cash, but for recovery of its interest due, by way of book adjustment.

For the period 2006-07 to 2009-10, the details of working loss of DTC, Ways and Means loans received from Government of NCT of Delhi for meeting the working loss and servicing of previous loans by payment of interest due are as under:

(₹ in crore)

Year	Working Loss during the year	Ways & Means (Non-Plan) Loan			Plan Loan	Total loan	Percentage of servicing loan to total loan
		For meeting working loss	For servicing of loan (payment of interest)	Total			
2006-07	289.82	279.95	602.42	882.37	1.14	883.51	68.18%
2007-08	325.39	325.00	767.07	1092.07	0	1092.07	70.24%
2008-09	563.90	550.00	1007.80	1557.80	0	1557.80	64.69%
2009-10	683.50	665.00	1316.28	1981.28	0	1981.28	66.44%
Total	1862.61	1819.95	3693.57	5513.52	1.14	5514.66	66.98%

The above table indicates that during the period 2006-07 to 2009-10, the loans received by DTC to service its debt liability constituted 67 per cent of the total amount of loans received during this period. Further, out of the remaining 33 per cent except for ₹ 1.14 crore received in the year 2006-07 for purchase of auxiliary vehicles, the remaining amount of loans has been spent on unproductive purposes like payment of salaries, arrears, bonus etc.

4.5.12.2.2 Urban Development Department – Delhi Jal Board (DJB)

The DJB is consistently running in heavy losses due to very low tariff and low cost recovery which forces the DJB to rely on excessive loan assistance from the Government of NCT of Delhi. There was substantial hike in water tariff in the year 2005-06, despite that DJB continued to project huge working losses and remained in deep financial crisis.

In the absence of adequate internal resources and to bridge the revenue gap and to meet its non plan deficit including payment of arrears of 6th Pay commission, the DJB is dependent on Non-Plan interest bearing loans from the Government of NCT of Delhi. The Urban Development Department of Government of NCT of Delhi issued Non-Plan loans under the Major Head 7615- Misc. Loans to DJB.

For the period 2006-07 to 2009-10, the details of working loss of DJB, Non-Plan loans received from Government of NCT of Delhi for meeting the working loss and servicing of previous loans by payment of interest due are as under:

(₹ in crore)

Year	Working Loss during the year	Ways & Means (Non-Plan) Loan				Percentage of servicing loan to total non-plan loan
		For meeting working loss	For settlement of arrears of electricity dues	For servicing of loan (payment of interest)	Total	
2006-07	1506.02	100.00	200.00	474.34	774.34	61.26
2007-08	1567.09	200.00	0	586.62	786.62	74.57
2008-09	1918.33	350.00	0	609.40	959.40	63.52
2009-10	2034.32	380.00	0	1666.67	2046.67	81.43
Total	7025.76	1030	200	3337.03	4567.03	73.07

The above table indicates that during the period 2006-07 to 2009-10, the Non-Plan loans received by DJB to service its debt liability constituted 73 per cent of the total amount of loans received during this period. Further, the remaining 27 per cent of the amount of Non-Plan loans has been spent on un-productive purposes like payment of salaries, arrears, bonus etc.

In the exit conference Government stated that DTC and DJB have been asked to improve their finances. From the year 2011-12 onwards, no further loans will be issued to these public utilities, instead grants will be issued depending upon their performance. Further, the process of writing off of the loans already issued is under consideration.

4.5.13 Sanction of loans without stipulating terms and conditions

4.5.13.1 Industries Department

As per the Office Memorandum of the Department of Economic Affairs, Ministry of Finance, Government of India on the subject of loans and advances, interest rates and other terms and conditions, issued from time to time and adopted in the Civil Accounts Manual of the Government of NCT of Delhi, before sanctioning and disbursing a loan, the sanctioning authority is required to specify the terms and conditions which, *inter-alia*, include the date of commencement of payment of installments, rate of interest, its periodicity and the term within which the loans together with interest (including penal interest, if any) are to be repaid.

Test check of files containing the records relating to sanction of loans by the Industries Department of Government of NCT of Delhi revealed that a loan

amounting to ₹ 51.24 crore was sanctioned to DSIIDC during the year 2009-10 but no terms and conditions were specified in the sanction order for recovery of principal, interest and penal interest. This resulted in non-levy of interest and penal interest as detailed below:

(₹ in crore)

Date of loan	Amount of Loan	Instalment due but not paid	Period of interest	Normal interest due but not paid	Penal interest due
16.03.2010	51.24	0.51*	17.03.2010 to 31.03.2011 (380 days)	6.13**	0.18***

* As per MOF OM, period of loan is taken as 10 years, ** Rate of normal interest is taken as 11.5 per cent per annum, *** Rate of penal interest is taken as 2.75 per cent per annum over and above the normal rate of interest.

We observed that before giving concurrence to the proposal, the Finance Department did not ensure that the loan was disbursed only after specifying the terms and conditions for repayment of principal and interest. This resulted in non-levy of interest of ₹ 6.13 crore and penal interest of ₹ 18.27 lakh.

Department in its reply (October 2011) has stated that finalisation of terms and conditions for repayment of loan and interest due is under process.

In the exit conference the Government stated that DSIIDC will shortly repay the amount of loan.

4.5.13.2 Department for Welfare of SC/ST/OBC

Test check of loan records of Department for Welfare of SC/ST/OBC of Government of NCT of Delhi revealed that during the period from 2002-03 to 2004-05, loans amounting to ₹ 1.98 crore were issued to Delhi SC/ST/OBC Financial Development Corporation (DSCFDC) under various schemes for the benefit of SC/ST/OBC/Minority Community. However, loan sanctioning orders did not contain the terms and conditions such as rate of interest, period of repayment, moratorium if any and penal interest for default of repayment. Neither the sanctioning authority nor the Finance Department, which vetted and concurred with the loan proposals had ensured that the terms of repayment and interest provisions were incorporated in the sanction orders.

During the period 2005-06 to 2006-07, further loans amounting to ₹ 2.49 crore were issued to DSCFDC under the schemes for the welfare of SC/ST/OBC/Minority Community. Loan sanctioning orders mentioned the period of loan and normal rate of interest. However, these did not contain the provisions for the date and year from which the repayment of loan was to commence and the rate of penal interest in case of default in repayment of instalment of loan and/or interest and were thus incomplete.

We also observed that in the absence of clear repayment terms in the sanction orders no details of repayments of any instalments or interest due are being maintained by the DSCFDC.

The above loan sanctioning orders without specific provisions for repayment of loan and interest thereon resulted in non-realisation of principal interest and penal interest as detailed below:

(₹ in lakh)

Years	Opening balance of outstanding loans	Loans issued during the year	Recoveries made during the year	Closing balance of outstanding loans	Interest due on the closing balance @ 4% per annum	Interest paid during the year	Interest overdue	Principal due on the opening balance considering the normal life of loan being 6 years	Principal overdue	Penal interest @ 2.75 per cent on overdue principal & interest
2006-07	1141.80	215.14	0	1356.94	54.28	0	54.28	190.30	190.30	6.73
2007-08	1356.94	0	0	1356.94	54.28	0	54.28	226.16	226.16	7.71
2008-09	1356.94	0	0	1356.94	54.28	0	54.28	226.16	226.16	7.71
2009-10	1356.94	0	0	1356.94	54.28	0	54.28	226.16	226.16	7.71
Total							217.12		868.78	29.86

In the exit conference the Government stated that the process of writing off of loans issued by Department for Welfare of SC/ST/OBC will be initiated shortly.

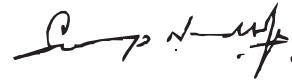
4.5.14 Conclusion

The outstanding loans of the State Government stood at ₹ 39219.78 crore at the end of March 2010 and the loans sanctioned increased by 41 per cent during the period, whereas the recovery effected never exceeded one per cent except in 2008-09 when it was 2.63 per cent. Due to sanction of loans to cash strapped State bodies, 98 per cent of the interest receipts were recovered by way of book adjustments, by fresh sanction of loans. The PAOs of the Administrative Departments did not maintain loan records showing the outstanding dues and the recoveries effected and neither issued any demands/levied penal interest on outstanding instalments. In absence of proper records, the budgeting for interest receipts by the Administrative Departments was a futile exercise. The State Government had never carried out an internal audit of the loans sanctioned and recoveries made. There were few instances of loans sanctioned without specifying terms of repayment of principal and interest.

4.5.15 Recommendations

The Government may consider the following recommendations:

- The loan records should be constructed and updated within a reasonable timeframe. Computerisation of loan records may be taken up on priority. The provisions of the Civil Accounts Manual should be adhered to and co-ordination between the Administrative Departments and PAOs be ensured.
- The Administrative/Finance Department should ensure that conditions for loans are strictly adhered to and loan sanction orders specify the terms of repayment of principal and interest.
- Budgeting of interest receipts should be streamlined and proposals should originate in the Administrative Departments as prescribed under the rules.
- Internal audit of PAO offices may be conducted on priority.
- The tendency to utilise a major portion of tax revenue for discharging its own debt liability and to help its loanees service their debt liability needs to be reviewed in interest of prudential financial management of Government finances.



New Delhi
Dated: 18 APR 2012

(S. NANDKEOLYAR)
Principal Accountant General (Audit), Delhi

Countersigned



New Delhi
Dated: 30 APR 2012

(VINOD RAI)
Comptroller and Auditor General of India