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REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 2011
(REVENUE RECEIPTS)

(Report No. 3)



GOVERNMENT OF CHHATTISGARH

००/२०



दिनांक को विधान सभा
में प्रस्तुत ।
Presented to Legislature
on.....03 APR 2012.....

Report of the Comptroller and Auditor General of India

For the year ended 31 March 2011

(Revenue Receipts)

(Report No. 3)

Government of Chhattisgarh

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PREFACE

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

The audit of Revenue Receipts of the State Government is conducted under Section 16 of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising Commercial Tax/Value Added Tax, Stamp Duty & Registration Fee, State Excise, Land Revenue, Motor Vehicle Taxes, Electricity Duty and Forest and other non-tax Receipts of the State.

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

OVERVIEW

This Report contains 28 paragraphs including three Performance Audit relating to underassessment/short levy/loss of revenue etc. involving ₹ 49.96 crore. Some of the major findings are mentioned below.

I. General

The total revenue receipts of the State Government for the year 2010-11 amounted to ₹ 12,840.46 crore against ₹ 10,166.25 crore for the previous year. 57 *per cent* of this was raised by the State through tax revenue (₹ 9005.14 crore) and non-tax revenue (₹ 3835.32 crore). The balance 43 *per cent* was received from the Government of India as States share of divisible Union taxes (₹ 5425.19 crore) and grants in aid (₹ 4453.89 crore).

(Paragraph 1.1.1)

At the end of June 2011, 7,874 audit observations involving ₹ 3,429.36 crore relating to 2,094 inspection reports issued upto December 2010 remained outstanding.

(Paragraph 1.2.1)

Test check of the records of the Departments of Commercial tax, Stamp duty and Registration fee, Electricity and safety, State excise, Entertainment, Transport, Land revenue and other non-tax revenue etc. conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue etc. aggregating ₹ 826.86 crore in 7,666 cases. During the course of the year 2010-11, the Departments concerned accepted underassessments and other deficiencies of ₹ 656.84 crore in 4,498 cases. Of these, the Department recovered ₹ 2.35 crore during the year 2010-11.

(Paragraph 1.5.1)

II. Commercial Tax

A Performance Audit on “**Cross verification of declaration form used in inter-state trade or commerce**” revealed the following:

- The Department did not have in place any system for cross verification of the Declaration Forms submitted by dealers in support of Inter-State Transactions, for verification of forms on TINXSYS website and for verification of the utilisation of Forms or any database of sales against declarations.

(Paragraph 2.12.6)

- Adjustment of the tax liability by the Assessing Officer (AO), despite expiry of the validity of the incentive scheme, led to undue benefit of ₹ 26.54 lakh to the dealers.

(Paragraph 2.12.14)

- Non-verification of 'C' forms by the AO enabled the dealer to suppress turnover of inter-state sale resulting in evasion of tax of ₹ 28.24 lakh including penalty.

(Paragraph 2.12.20)

- Allowance of concessional sales on 'F' forms on grant of tax exemption by the AO, branches not declared in registration certificates of the dealers led to non-levy of tax of ₹ 20.28 lakh besides penalty leviable of ₹ 60.84 lakh.

(Paragraph 2.12.23)

- Incorrect allowance of *Inter-State* Sales in absence of declaration forms resulted in non-levy of tax of ₹ 1.02 crore.

(Paragraph 2.12.25)

- Evasion of Tax on Fake 'C' forms resulted in evasion of tax of ₹ 40.62 lakh, besides penalty leviable of ₹ 121.86 lakh in 61 cases pertaining to nine States.

(Paragraph 2.12.27)

- In 39 'F' forms not issued by five States, tax evaded was ₹ 1.15 crore besides penalty leviable of ₹ 3.46 crore.

(Paragraph 2.12.28)

- Suppression of actual value of goods purchased by 45 dealers and non-verification of the same by the Assessing Officer led to non-levy of tax of ₹ 2.89 crore including penalty.

(Paragraph 2.12.32)

Non-realisation of revenue of ₹ 39.70 lakh due to incorrect exemption on taxable goods.

(Paragraph 2.15)

Non-realisation of revenue of ₹ 23.61 lakh due to incorrect deduction from taxable turnover.

(Paragraph 2.16)

Non-levy of tax of ₹ 17.89 lakh and penalty of ₹ 89.43 lakh due to grant of irregular exemption.

(Paragraph 2.17)

Non-realisation of revenue of ₹ 32.86 lakh due to short levy of tax on residuary goods.

(Paragraph 2.18)

Non-levy of entry tax along with penalty of ₹ 15.48 lakh due to irregular exemption on doubtful lorry receipts.

(Paragraph 2.19)

Non-levy of entry tax of ₹ 9.17 lakh due to irregular exemption on direct sale.

(Paragraph 2.20)

Non-levy of tax of ₹ 2.44 lakh due to incorrect exemption on sale of taxable goods.

(Paragraph 2.21)

Non-levy of tax of ₹ 8.08 lakh on declaration sale.

(Paragraph 2.23)

III. Stamp duty and registration fee

Short levy of stamp duty and registration fee of ₹ 79.40 lakh due to undervaluation of properties.

(Paragraph 3.10)

Misclassification of instruments resulted in short realisation of stamp duty and registration fee of ₹ 48.19 lakh.

(Paragraph 3.12)

Registration of incomplete document and irregular retention by Sub Registrar led to short levy of stamp duty of ₹ 12.36 lakh.

(Paragraph 3.13)

IV. State Excise

Non-levy of penalty of ₹ 2.32 crore for failure to maintain the minimum stock of spirit in warehouses.

(Paragraph 4.10)

Non-levy of duty of ₹ 7.12 lakh on excess wastage in transportation.

(Paragraph 4.11)

Application of incorrect rate of licence fee led to a loss of ₹ eight lakh.

(Paragraph 4.12)

V. Land Revenue

A Performance Audit on “Levy and Collection of Land Revenue” revealed the following:

- We noticed that though 36 permanent lease deeds were finalised by the Collector Durg, these lease deeds were executed but not registered.

(Paragraph 5.8.7)

- In four Collectors and six *Tahsils* though the Department had recovered ₹ 24.76 crore on account of revenue recovery certificates (RRC), process expenses of ₹ 74.27 lakh though recoverable was not recovered by the concerned *Tahsildars*.

(Paragraph 5.8.8)

- No proposal for revision of rent rates was sent by the concerned SDOs/Collectors of six districts to the Government, though a period of ten years had elapsed, except for Dhamtari where proposal was sent after a lapse of more than three years.

(Paragraph 5.8.9)

- *Panchayat* Cess of ₹ 1.30 crore was not assessed and levied on premium of ₹ 2.60 crore in 642 diversion cases between April 2006 and March 2011.

(Paragraph 5.8.10)

- We noticed in ten offices that 1843 permanent leases due for renewal had not been renewed in absence of a monitoring system resulting in non-realisation of *nazul* rent of ₹ 62.79 lakh.

(Paragraph 5.8.11)

- We noticed in the office of the Collector, Durg that out of 186 leases rent amounting to ₹ 3.73 lakh was not paid by the lessees since 1987 in eight cases. Further, in Korba that the *Nazul* officer had not raised demand of ₹ 90.66 lakh in 32 cases.

(Paragraph 5.8.11.1)

- In Jagdalpur that on land admeasuring 19,286 sq.ft. handed over to Municipal Corporation Jagdalpur in March, 2003, premium and ground rent amounting to ₹ 94.09 lakh and ₹ 7.05 lakh respectively were not levied/recovered by the Collector.

(Paragraph 5.8.11.2)

- We saw that the *Tahsildars* did not take action for eviction in 377 cases of encroachment of Government land during the period July 2004 to April 2010. Besides, penalty of ₹ 60.18 lakh was not levied for unauthorised possession of land.

(Paragraph 5.8.14)

- We saw that the Collector Durg had in 122 cases assessed the cost of diverted land at pre-revised rates resulting in short assessment of diversion of rent of ₹ 7.85 lakh. Besides, demand of ₹ 89.14 lakh in respect of diversion rent and premium were not raised by the Sub-divisional Officers Janjgir and two *Tahsildars*.

(Paragraph 5.8.15 & 5.8.16)

- There was non-recovery of premium and ground rent of ₹ 86.73 lakh from Municipal Corporation of Mahasamund and Surajpur and *Krishi Upaj Mandi* Champa. Besides, interest of ₹ 1.60 crore for belated payments was also leviable.

(Paragraph 5.8.17)

- Infrastructure development and environment cess were not levied on diversion rent, lease rent and other land revenues during the period from 2006-07 to 2010-11 resulting in non-realisation of Government revenue by ₹ 1.02 crore in six Collectorates and nine *Tahsils*.

(Paragraph 5.8.18)

- Undue favour extended to school in allotment of land led to short levy of premium and ground rent amounting to ₹ 54.87 lakh.

(Paragraph 5.8.19)

VI. Taxes on Vehicles

A Performance Audit on “**Computerisation in Transport Department**” revealed the following:

- We found partial utilisation of the system of VAHAN and SARATHI, the modules/reports like Permits including inter-State movement, Enforcement/Vehicle Check Report, Temporary registration, Demand, collection and balance statements, Management Information System Report, Conductor’s Licence were not made operational.

(Paragraph 6.9.10)

- We noticed that efforts were not made to develop expertise within the Department to handle the database administration function, the database administration was being handled by the NIC.

(Paragraph 6.9.13)

- Entry of invalid data was not rejected in the software. We found that out of 6,26,699 registration records of vehicles, 7670 vehicles contained same chassis number and engine number; in RTO Raipur, 138 cases of duplicate chassis number were found while in RTO Bilaspur zero digits was entered in chassis number column in one case.

(Paragraph 6.9.14)

- We observed that the Department did not have a formal business continuity and disaster recovery plan for continuation of the Departmental activities in the event of a disaster. There was no central database; backup/standby servers were not installed in the field offices. Thus in the event of data loss; the Department has no means to restore the data.

(Paragraph 6.9.18)

- There was short realisation of ₹ 1.87 lakh on account of fees for choice numbers which the VAHAN software also failed to detect as no master data was created for choice number despite presence of such facility in the software.

(Paragraph 6.9.22)

- In three RTOs, we found that in 3527 vehicles, tax clearance data was not fed by the transport authorities in VAHAN software while issuing/accepting NOC.

(Paragraph 6.9.25)

- We found that though there is a system in the VAHAN software to update the tax rate, but the Department did not update the same. Further scrutiny revealed that in respect of 1443 vehicles, life time tax amounting to ₹ 49.07 lakh was leviable. However, the RTO levied and realised only ₹ 40.94 lakh which resulted in short realisation of ₹ 8.13 lakh.

(Paragraph 6.9.26)

VII. Electricity

Non-realisation of cess and interest of ₹ 1.13 crore on single point connection.

(Paragraph 7.8)

VIII. Forest and Other non-tax Receipts

Non-levy of transit fee of ₹ 13.16 crore on the extraction and transport of minerals extracted from forest land.

(Paragraph 8.9)

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Chhattisgarh during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	•Tax revenue	5,045.70	5,618.10	6,593.72	7,123.25	9,005.14
	•Non-tax revenue	1,451.34	2,020.45	2,202.21	3,043.00	3,835.32
	Total	6,497.04	7,638.55	8,795.93	10,166.25	12,840.46
2.	Receipts from the Government of India					
	•Share of net proceeds of divisible Union taxes and duties	3,198.80	4,034.98	4,257.91	4,380.66	5,425.19 ¹
	•Grants-in-aid	1,757.40	2,205.12	2,608.92	3,606.74	4,453.89
	Total	4,956.20	6,240.10	6,866.83	7,987.40	9,879.08
3.	Total revenue receipts of the Government (1 and 2)	11,453.24	13,878.65	15,662.76	18,153.65	22,719.54
4.	Percentage of 1 to 3	57	55	56	56	57

The above table indicates that the total revenue raised by the State Government increased by 25 per cent as compared to the increase of 16 per cent during the previous year. The share of revenue raised by the State Government to the total revenue of the State during 2010-11 was 57 per cent as against 56 per cent in the previous year. The balance 43 per cent of receipts during 2010-11 was from the Government of India.

¹ For details, refer "tax revenue" of statement 11, detailed account of revenue by minor heads of the Finance Account of the Government of Chhattisgarh, 2010-11. The amount under the minor head 901- share of net proceeds assigned to the state booked under the major heads 0020- Corporation tax, 0028- Other taxes on income and expenditure, 0032- Taxes on wealth, 0038- Union excise duty, 0044- Service tax and 0045- Other taxes and duties on commodities and services under 'A-tax revenue' have been excluded from the revenue raised by the state and included in the state's share of divisible Union taxes in this statement.

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

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/decrease (-) in 2010-11 over 2009-10
1.	• Commercial tax	2,140.71	2,502.70	2,946.78	3,031.16	4,094.96	(+) 35.10
	• Central sales tax	702.33	521.00	664.16	681.00	745.83	(+) 9.52
2.	State excise	706.81	843.00	964.10	1,187.72	1,506.44	(+) 26.83
3.	Stamp duty and Registration fee	389.51	462.72	495.59	583.13	785.85	(+) 34.76
4.	Taxes and duties on electricity	469.12	394.86	415.10	416.91	502.53	(+) 20.54
5.	Taxes on vehicles	253.05	276.94	313.78	351.88	427.52	(+) 21.50
6.	Taxes on goods and passengers	301.81	510.72	420.71	696.10	675.14	(-) 3.01
7.	Other taxes on income and expenditure, taxes on professions, trades, callings and employments including hotel receipts tax	16.23	11.54	7.67	8.81	8.82	(+) 0.11
8.	Other taxes and duties on commodities and services	5.27	6.40	6.33	6.86	10.69	(+) 55.83
9.	Land revenue	60.86	88.12	359.50	159.68	247.37	(+) 54.92
	Total	5,045.70	5,618.10	6,593.72	7,123.25	9,005.15	(+) 26.42

The following reasons for variations were reported by the concerned Departments:

Commercial tax and Central sales tax: The increase (35.10 and 9.52 per cent) was due to simple scheme for recovery of arrears under Commercial tax and increase in price of iron ore, cement and coal and increase in inter-state sales under Central Sales Tax Act.

State Excise: The increase (26.83 per cent) was due to increase in income from process fee and increase in consumption of liquor.

Stamp duty and registration fee: The increase (34.76 per cent) was due to increase of registered documents and increase in market value of property in the guidelines.

Taxes on vehicles: The increase (21.50 per cent) was due to increase in life time tax and increase in registration of new vehicles.

Land Revenue: The increase (54.92 *per cent*) was due increase in recovery of *Adhosanrachna Upkar* pertaining to earlier years.

The other Departments did not inform (September 2011) the reasons for variation, despite being requested (May 2011).

1.1.3 The following table presents the details of the non-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 (-) in 2010-11 over 2009-10
1.	Geology and mining	813.42	1,031.55	1,243.24	1,660.87	2,470.44	(+) 48.74
2.	Forestry and wild life	205.79	258.07	322.29	345.85	305.17	(-) 11.76
3.	Interest receipt	186.04	205.61	237.40	220.70	170.95	(-) 22.54
4.	Major and medium irrigation	104.96	97.62	126.03	105.37	222.00	(+) 110.69
5.	Other non-tax receipts	74.32	96.44	135.18	537.82	602.01	(+) 11.94
6.	Medical and public health	19.33	7.62	1.67	35.67	10.26	(-) 71.24
7.	Other administrative services	13.10	10.59	11.49	13.03	15.97	(+) 22.56
8.	Police	12.11	12.31	8.22	6.69	18.22	(+) 172.35
9.	Public works	9.31	11.67	13.59	14.61	15.74	(+) 7.73
10.	Miscellaneous general services	8.62	281.84	95.58	96.97	(-)0.84	(-) 100.87
11.	Co-operation	4.34	7.13	7.52	5.42	5.40	(-) 0.37
Total		1,451.34	2,020.45	2,202.21	3,043.00	3,835.32	(+) 26.04

The following reasons were reported by the concerned Department:

Geology and Mining: The increase (48.74 *per cent*) was due to collection of royalty of major and minor minerals at increased rates for the whole financial year.

Forestry and Wild life: The decrease (11.76 *per cent*) was due to specific regional reasons in forest areas.

Public Works: The increase (7.73 *per cent*) was due to tender of new works.

1.2 Response of the Departments/ Government towards audit

The Accountant General (Audit), (AG) Chhattisgarh conducts periodical inspection of the Government Departments to test check the transactions and

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

1.2.1 Outstanding IRs and audit observations

IRs issued up to December 2010 disclosed that 7,874 paragraphs involving ₹ 3,429.36 crore relating to 2,094 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years:

	June 2009	June 2010	June 2011
Number of outstanding IRs	1,955	1,990	2,094
Number of outstanding audit observations	7,266	7,462	7,874
Amount involved (₹ in crore)	2,847.14	3,313.41	3,429.36

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

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money involved (₹ in crore)
1.	Finance	Taxes/ VAT on sales, trade etc	354	2,277	314.12
		Electricity duty	11	37	6.95
		Entertainment tax	62	79	1.90
2.	Stamp and Registration	Stamp and registration fees	254	610	32.35
3.	Revenue	Land revenue	501	1395	360.70
4.	Transport	Taxes on motor vehicles	113	760	91.06
5.	Excise	State Excise	108	328	326.07
6.	Geology and Mining	Non-ferrous mining and metallurgical industries	118	395	550.39
7.	Other tax Departments	Other receipts	288	1042	651.19
8.	Forest (Revenue)	Forest receipts	285	951	1,094.63
Total			2,094	7,874	3,429.36

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 80 IRs issued up to March 2011. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

We recommended that the Government to 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 has 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 (ACMs) held during the year 2010-11 and the paragraphs settled are mentioned in the following table:

Head of revenue	Number of meetings held	Number of paragraphs settled	Amount (₹ in crore)
Taxes on motor vehicles	01	41	0.86
Taxes/VAT on sale, trade etc.	01	42	0.31
Total	02	83	1.17

It is seen from the above that during 2010-11 only two Departments convened one ACM each, other Departments did not take initiative to hold ACMs.

It is recommended that Government ensure convening of periodical ACMs by all the Departments for effective and expeditious settlement of outstanding paragraphs.

1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of Commercial Tax 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, commercial tax assessment records relating to four offices were not made available to audit as mentioned below:

Sl. No.	Name of office	Year in which it was audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained	Revenue involved
1.	CTO circle-IV, Raipur	4/2010 to 3/2011	07	N.A	N.A
2.	CTO circle-I, Bilaspur	4/2010 to 3/2011	02	N.A	N.A
3.	ACCT- Raipur (S.K. Bakshi)	4/2010 to 3/2011	06	N.A	N.A
4.	ACCT-Raipur (S.L. Agrawal)	4/2010 to 3/2011	09	N.A	N.A

1.2.4 Response of the Departments to the draft audit paragraphs

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

25 draft paragraphs proposed to be included in the report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the Secretaries of the respective Departments between April 2010 and March 2011. Out of 25 draft paragraphs, the Departments have accepted the audit observations in respect of 19 paragraphs.

1.2.5 Follow up on Audit Reports- summarised position

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

As on March 2011, three Departments had not furnished the Departmental notes in respect of five paragraphs included in the Audit Reports for the years between 2004-05 and 2008-09 for vetting and the period of delay ranged from 9 to 57 months as mentioned in the following table:

Sl. No.	Name of the Department	Year of report	Date of presentation to the legislature	Last date by which departmental notes were due	Number of paragraphs for which departmental notes were due	Delay in months at the end of March 2011
1.	Land revenue	2004-05	23.3.06	23.6.06	1	57
		2007-08	20.2.09	20.5.09	1	23
		2008-09	26.3.10	26.6.10	1	09
2.	Co-operative	2007-08	20.2.09	20.5.09	1	23
3.	Registration	2008-09	26.3.10	26.6.10	1	09
Total					5	

With a view to ensure accountability of the executive, the Public Accounts Committee (PAC) lays down in each case, the period within which Action Taken Notes (ATN) on its recommendations should be sent. The PAC discussed 76 selected paragraphs pertaining to the Audit Reports for the years 1998-99 to 2008-09 and gave its recommendations on 33 paragraphs. However, ATNs have not been received in respect of 33 recommendations of the PAC from the Departments concerned as mentioned in the following table:

Year	Name of the Department						Total
	Commercial tax/ State Excise	Co-operative	Urban development/ Registration	Motor vehicle/ Land revenue	Water resource/ Mining	Food civil supplies/ Public Works Department	
1998-99	-/2	1	-/4	2/1	2/-	1/-	13
1999-2000	-/-	-	-/-	-/-	-/3	-/-	03
2000-01	-/1	-	-/6	4/-	1/-	-/-	12
2001-02	-/-	-	-/-	-/-	-/-	-/-	-
2002-03	-/-	-	-/-	-/-	-/-	-/-	-
2004-05	-/-	-	-/-	-/2	-/-	-/2	4
2007-08	-/-	-	-/-	-/-	1/-	-/-	1
Total	-/3	1	-/10	6/3	4/3	1/2	33

1.2.6 Compliance with the earlier Audit Reports

In the Audit Reports of 2005-06 to 2009-10 cases of under assessment, non/short levy of taxes, loss of revenue, failure to raise demands etc. Were indicated involving ₹ 947.25 crore. The Departments accepted observations of the Audit Reports involving ₹ 525.24 crore, of which ₹ 9.75 crore only had been recovered till March, 2011 as mentioned in the following table:

(₹ in crore)

Sl. No.	Year of the Audit Report	Total money value	Amount accepted	Recovery made up to March 2011
1.	2005-06	253.10	2.22	1.88
2.	2006-07	15.99	2.92	1.85
3.	2007-08	92.87	52.88	1.68
4.	2008-09	486.08	446.33	4.34
5.	2009-10	99.21	20.89	-
Total		947.25	525.24	9.75

We recommend that the Government may consider taking effective steps for recovering the outstanding revenue.

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

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Excise Department to deal with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Reports for the years 2001-02 to 2009-10.

1.3.1 Position of Inspection Reports

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

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value (₹ in crore)	IRs	Para-graphs	Money value (₹ in crore)	IRs	Para-graphs	Money value (₹ in crore)	IRs	Para-graphs	Money value (₹ in crore)
2001-02	51	194	70.32	12	65	20.50	2	15	1.23	61	244	89.59
2002-03	61	244	89.59	11	63	25.51	2	46	6.66	70	261	108.43
2003-04	70	261	108.43	7	25	35.94	8	84	37.77	69	202	106.60
2004-05	69	202	106.60	7	40	46.36	1	18	2.48	75	224	150.47
2005-06	75	224	150.47	15	93	35.96	-	17	4.41	90	300	182.03
2006-07	90	300	182.03	6	34	19.20	2	13	1.16	94	321	200.07
2007-08	94	321	200.07	12	49	13.81	-	20	6.97	106	350	206.91
2008-09	106	350	206.91	11	47	151.05	9	67	33.72	108	330	324.25
2009-10	108	330	324.25	7	26	16.46	13	67	76.46	102	289	264.25
2010-11	102	289	264.25	10	48	64.51	3	6	2.47	109	331	326.30

Above table clearly shows that more than 100 IRs involving revenue of more than ₹ 200 crore are pending for last four years.

It is recommended that the Department/Government take appropriate and timely action to settle outstanding paragraphs.

1.3.2 Assurance 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 nine years, those accepted by the Department and the amount recovered are mentioned in the following table:

(₹ in lakh)

Year of AR	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of paragraphs accepted	Amount recovered during the year	Cumulative position of recovery of accepted cases
2001-02	5	368.88	1	256.00	-	1.12
2002-03	2	23.41	1	3.09	-	1.17
2003-04	2	40.54	2	40.54	-	9.72
2004-05	6	1025.20	3	381.12	-	4.76
2005-06	5	409.00	2	105.28	-	-
2006-07	-	-	-	-	-	-
2007-08	6	1495.00	-	-	-	-
2008-09	3	119.80	3	119.80	1.88	1.88
2009-10	2	48.04	2	45.04	-	-
Total	31	3,529.87	14	950.87	1.88	18.65

31 paras (Money value ₹ 3,529.87 lakh) had been included in the Audit Reports for the period 2001-02 to 2009-10, of which 14 paras (Money value ₹ 950.87 lakh) were accepted by the Department, whereas only ₹ 18.65 (1.96 per cent) was realised in the accepted cases.

When asked about the existing mechanism in the Department to monitor the recovery in the accepted cases, the Department intimated that Assistant Commissioners/District Excise Officers posted in districts are competent officers to effect recovery on accepted cases; process of recovery of outstanding revenue pointed out by audit is done at district level. RRCs are issued against the persons concerned and recovery is made as arrears of land revenue, however the fact remains that the progress made in recovery of the accepted cases is very low (1.96 % of the accepted amount). **We recommend that Government may consider taking effective steps for recovery of the amounts at least in those cases which have been accepted by the Department.**

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

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

The following paragraphs discuss the issues highlighted in the performance audit on the Excise Department featured in the last 10 Audit Reports including the recommendations and action taken by the Department on the recommendations accepted by it as well as the Government.

Year of AR	Name of the performance audit	Number of recommendations	Details of the recommendations accepted	Status
2007-08	Levy and collection of Excise Revenue	6	3.2.7 The Government may evolve provisions for recovery of alcohol from grain as in the case of molasses to avoid revenue leakage.	The Government stated that it would start the process of framing provisions for production from grain by collecting and examining the prevailing rules in other States.
			3.2.8 The Government should re-examine the methodology for fixing targets using prescribed parameters such as time series data of actual revenue collection to do a trend analysis to fix targets for the districts.	The Government stated that while fixing the targets, efforts would be made to do a trend analysis of the past targets and actual revenue realisation.
			3.2.9 The Government should calculate the anticipated yield from the higher of the two reports, from the distiller and department laboratory.	The laboratory has been sanctioned by the Government but delay in its establishment is due to lack of place.
			3.2.10.1 The Government may consider introducing similar provisions for IMFL.	As per rules, the stock of filled bottles is kept by the Department to avoid the revenue pilferage. There is no need for amending the rules.
			3.2.10.2 To issue instructions to record actual loss in transit.	Strict instructions have been issued for recording actual wastage.
			3.2.11 To strengthen the Internal Audit Wing and its functioning.	Action will be taken for establishing IAW accordingly.

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* includes 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 662 auditable units, of which 127 units were planned and 140 units audited during the year which is 21.15 *per cent* of the total auditable units.

Besides, the compliance audit mentioned above, three performance audits 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 audit conducted during the year

Test check of the records of 110 units of commercial tax, land revenue, state excise, motor vehicle tax, stamps and registration fees and other non-tax receipts conducted during the year 2010-11 revealed underassessment/ short levy/loss of revenue aggregating to ₹ 826.86 crore in 7,666 cases. During the course of the year, the departments concerned accepted under assessments and other deficiencies of ₹ 656.84 crore involved in 4,498 cases. The departments collected ₹ 2.35 crore in during 2010-11.

1.5.2 This Report

This report contains 28 paragraphs (selected from the detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) including three Performance Audit on **Cross verification of declaration forms on *Inter-state* trade or commerce; Levy and collection of Land Revenue;** and **Computerisation in Transport Department** relating to short/ non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 49.96 crore. The Departments/ Government have accepted audit observations involving ₹ 11.05 crore, out of which ₹ 0.16 crore had been recovered. The replies in the remaining cases have not been received (October 2011). These are discussed in succeeding chapters II to VIII.

CHAPTER II: COMMERCIAL TAX

2.1 Tax administration

The Chhattisgarh Commercial Tax Department is responsible for levy and collection of Value Added tax (VAT), Central Sales tax (CST), Entry tax (ET), Professional tax (PT) and Luxury tax (LT) in the State through assessment of cases of dealers. Commercial Tax Department contributes major part of the revenue for the State. The Department implements the under mentioned Acts and Rules made there under:

- Central Sales Tax Act, 1956;
- Chhattisgarh Entry Tax Act, 1976;
- Chhattisgarh Luxury Tax Act, 1988;
- Chhattisgarh Commercial Tax Act, 1994;
- Chhattisgarh Professional Tax Act, 1995; and
- Chhattisgarh Value Added Tax Act, 2005

2.2 Analysis of Budget preparation

The Budget estimates, as per the Chhattisgarh Budgetary manual, are prepared after taking into account the revenue realised during the previous year and the expected revenue increase in the current year. The Department sends the budget proposal to the Finance Department for approval. The budget, after discussion, is approved by the Finance Department.

2.3 Trend of Revenue Receipts

Actual receipts from Commercial Taxes during the years 2006-07 to 2010-11 along with the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	2,903.20	2,843.04	(-) 59.96	(-) 2.07	5,045.70	56.34
2007-08	3,200.00	3,023.70	(-) 176.30	(-) 5.51	5,618.10	53.82
2008-09	3,470.00	3,610.94	(+) 140.94	(+) 4.06	6,593.72	54.76
2009-10	3,447.12	3,712.16	(+) 265.04	(+) 7.69	7,123.25	52.11
2010-11	4524.13	4840.79	(+)316.66	(+)7.00	9005.14	53.76

(Source: Finance Accounts of the State)

The contribution of Commercial Tax receipts to the tax revenue of the state during the last five years ranged between 52.11 to 56.34 *per cent*. It may be seen from the above table that the actual receipts during the above period except in

2006-07 and 2007-08, exceeded the budget estimates and the same ranged between four *per cent* and eight *per cent*.

The increase during the year as intimated by the Department was due to implementation of simple scheme for recovery of arrears under Commercial tax and increase in price of iron ore, cement and coal and increase in Inter-State Sales under Central Sales Tax Act.

2.4 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 450.85 crore of which ₹ 147.12 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	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	147.12	215.79	206.38	156.53
2007-08	156.53	424.99	398.19	183.33
2008-09	183.33	171.26	160.20	194.39
2009-10	194.39	927.38	683.20	438.57
2010-11	438.57	324.42	312.14	450.85

(Source: Departmental figures)

The arrears of sales tax/VAT revenue were ₹ 450.85 crore at the end of 31 March 2011, which constituted 9.31 *per cent* of the actual collections (₹ 4840.79 crore) for the year collected during the year. In 2009-10 there was substantial increase in recoveries made during the year. We do not have information on the clearance of old outstanding arrears during this period.

2.5 Assessee Profile

As per the information received from the Commercial Tax Department the position of register dealer is mentioned in the following:

Year	Number of dealers registered	Large Tax Payers	Small Tax Payers	Number of dealers required to file returns	Number of returns received	Action taken by the department
2010-11	58,299	4,546	53,753	52,375	93,173	Advance Tax Notices issued to the dealers for collection of taxes due and action taken to recover the due amount.

Auditee profile

2.6 Cost of VAT per assessee

Cost of VAT per assesses for the years from 2006-07 to 2010-11 is mentioned in the following table.

(₹ in crore)

Year	Number of Assessee	VAT Revenue	Revenue/Assessee
2006-07	57,353	3,161.72	0.0551
2007-08	59,499	3,545.77	0.0596
2008-09	63,446	4,044.39	0.0637
2009-10	69,727	3,085.12	0.0442
2010-11	58,289	4,047.58	0.0694

(Source: Departmental figures)

The above table indicates that after implementation of Chhattisgarh VAT Act (April 2006), the revenue per Assessee increased considerably and there was constant increase in collection of VAT from 2006-07 to 2010-11 except the year 2009-10 during which there was decline of 23.72 per cent.

2.7 Arrears in assessment

The number of pending cases at the beginning of the year 2010-11, becoming due during the year, disposed of during the year and pending at the end of the year 2010-11 as furnished by the Department are mentioned in the following table:

Name of tax	Opening balance (2010-11)	Addition during the year	Total number of assessment cases due	Cases deemed to have been assessed/scrutinised during the year	Cases pending at the end of the year	Percentage of clearance (column 5 to 4)
1	2	3	4	5	6	7
Value Added tax	23,748	89,297	1,13,045	60,840	52,205	53.82
Professional tax	3,179	26,423	29,602	21,197	8,405	71.61
Entry tax	8,295	41,001	49,296	27,441	21,855	55.67
Luxury tax	39	116	155	130	25	83.87
Tax on works contract	103	751	854	403	451	47.19
Total	35,364	1,57,588	1,92,952	1,10,011	82,941	57.01

The above table indicates that at the end of the year, only 57.01 per cent of the cases has been disposed by the Department. The Government may initiate timely actions for expeditious disposal of these pending cases.

2.8 Cost of collection

The expenditure incurred on collection of receipt and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure to gross collection of preceding years is indicated in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of expenditure to gross collection of preceding year
Taxes/VAT on Sale, trade etc	2008-09	3610.94	16.38	0.45	0.83
	2009-10	3712.16	25.71	0.69	0.88
	2010-11	4840.79	29.99	0.62	0.96

It may be seen from the table that the expenditure on cost of collection is showing an increasing trend, and there is an increase of 14.27 per cent on collection during the year 2010-11 as compared to the previous year 2009-10. The reason for increase as intimated by the Department is due to implementation of sixth pay commission and also due to mission mode project in commercial tax.

2.9 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade etc. during the year 2010-11 and corresponding figures for the preceding five years as furnished by the Finance (Commercial Taxes) Department is mentioned below:

(₹ in crore)

Heads of revenue	Year	Amount collected at the pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per department	Percentage of collection (column 3 to 7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Taxes/VAT on sales, trade etc.	2005-06	1,621.44	52.48	10.81	10.72	1,674.01	96.86
	2006-07	2,038.49	104.41	20.77	22.96	2,140.71	95.22
	2007-08	2,379.83	126.97	10.44	14.55	2,502.69	95.09
	2008-09	2,925.54	52.77	8.12	18.35	2,968.08	98.57
	2009-10	2,388.16	190.93	87.35	57.33	2,609.11	91.53
	2010-11	3678.40	387.55	41.78	60.15	4047.58	90.88

(Source: Departmental figures, the figures mentioned above do not contain CST figures)

It may be seen from the table that percentage of collection of taxes at pre-assessment was the highest in 2008-09 while it was the least during the year 2010-11.

2.10 Impact of Audit

2.10.1 Position of Inspection Reports (IR): During the last five years, audit through its IR had pointed out non/short levy, non/short realisation, underassessment/ loss of revenue, incorrect exemption, incorrect computation etc. with revenue implication of ₹ 36.96 crore in 956 cases. Of these, the Department/Government had accepted audit observations in 135 cases involving ₹ 0.963 crore. No recovery has been made by the Department in any of these cases. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	17	263	0.20	2	0.003	Nil	Nil
2006-07	10	176	0.18	97	0.11	Nil	Nil
2007-08	04	37	0.03	16	0.07	Nil	Nil
2008-09	20	185	0.62	10	0.48	Nil	Nil
2009-10	32	295	35.93	10	0.30	Nil	Nil
Total		956	36.96	135	0.963	Nil	Nil

The above table indicates that during the last five years no recovery was affected by the Department.

During discussion, the Department stated that the cases will be examined and efforts will be made for the early recovery.

2.10.2 Position of Audit Reports: In the Audit Report 2005-06 to 2009-10, cases of under assessment, non/short levy tax were indicated involving ₹ 60.77 crore. The Department accepted observations of ₹ 51.41 crore of which ₹ 0.08 crore had been recovered till March 2011 as shown in the following table:

(₹ in crore)

Sl. No.	Year of the audit report	Total money value	Amount accepted	Recovery made up to March 2011
1.	2005-06	5.10	Nil	Nil
2.	2006-07	2.11	0.24	0.08
3.	2007-08	0.74	0.32	Nil
4.	2008-09	49.46	47.49	Nil
5.	2009-10	3.36	3.36	Nil
	Total	60.77	51.41	0.08

The above table indicates that only 0.15 per cent of recovery has been made by the Department against the accepted amount which is almost negligible.

2.11 Result of Audit

Test check of the records of 28 units relating to Commercial Tax Department revealed underassessment, non/short levy of tax/interest/penalty, application of incorrect rate of tax etc. amounting ₹ 55.08 crore in 362 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Cross verification of declaration forms used in Inter-state trade or commerce – A Performance Audit	1	15.99
2	Incorrect grant of exemption/deduction	103	11.18
3	Non/short levy of tax	66	4.32
4	Incorrect determination of taxable turnover	19	3.16
5	Application of incorrect rate of tax	19	1.14
6	Other irregularities	154	19.29
Total		362	55.08

During the year, the Department accepted underassessment of ₹ 2.59 crore in 73 cases.

After issue of draft paragraph, the Department had recovered ₹ 14.91 lakh in full in one case.

Performance Audit on “**Cross verification of declaration forms used in Inter-state trade or commerce**” involving financial effect of ₹ 15.99 crore and few illustrative cases involving financial effect of ₹ 2.43 crore are mentioned in the following paragraphs.

2.12 Cross-verification of declaration forms used in Inter-state Trade

The Central Sales Tax (CST) Act, 1956 and the rules framed thereunder provide for concessional rate of tax in respect of inter-state sales of goods and exemption from tax in respect of branch transfers and export sales. These concessions/exemptions are subject to furnishing of declarations in the prescribed forms viz. 'C', 'F' and 'E-I/II' etc. Failure to furnish the declarations or submission of defective or incomplete declaration forms will make the transactions liable to tax as applicable to sale in the appropriate State.

We conducted cross verification of declaration forms used in inter-state trade to check the genuineness of these declarations. All the information collected was verified with the Commercial/Sales Tax Departments of other States through our Accountant General offices and we found various irregularities as mentioned below:

Highlights

- The Department did not have in place any system for cross verification of the Declaration Forms submitted by dealers in support of Inter-State Transactions, for verification of forms on TINXSYS website and for verification of the utilisation of Forms or any database of sales against declarations.

(Paragraph 2.12.6)

- Adjustment of the tax liability by the Assessing Officer (AO), despite expiry of the validity of the incentive scheme, led to undue benefit of ₹ 26.54 lakh to the dealers.

(Paragraph 2.12.14)

- Non-verification of 'C' forms by the AO enabled the dealer to suppress turnover of inter-state sale resulting in evasion of tax of ₹ 28.24 lakh including penalty.

(Paragraph 2.12.20)

- Allowance of concessional sales on 'F' forms on grant of tax exemption by the AO, branches not declared in registration certificates of the dealers led to non-levy of tax of ₹ 20.28 lakh besides penalty leviable of ₹60.84 lakh.

(Paragraph 2.12.23)

- Incorrect allowance of Inter-State Sales in absence of declaration forms resulted in non-levy of tax of ₹ 1.02 crore.

(Paragraph 2.12.25)

- Evasion of Tax on Fake 'C' forms resulted in evasion of tax of ₹ 40.62 lakh besides penalty leviable of ₹ 121.86 lakh in 61 cases pertaining to nine States.

(Paragraph 2.12.27)

- In 39 'F' forms not issued by five States, tax evaded was ₹ 1.15 crore besides penalty leviable of ₹ 3.46 crore.

(Paragraph 2.12.28)

- Suppression of actual value of goods purchased by 45 dealers and non-verification of the same by the Assessing Officer led to non-levy of tax of ₹ 2.89 crore including penalty.

(Paragraph 2.12.32)

2.12.1 Introduction

Under the Central Sales Tax Act, 1956 (CST Act), registered dealers are eligible for certain concessions and exemptions of tax on inter-State transactions on submission of prescribed declarations in Forms 'C', 'E-I/II' and 'F'. The State Governments grant these incentives to dealers for furtherance of trade and commerce, on production of these declaration forms. It is the responsibility of the Commercial Tax Department to ensure proper accountal 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 the state exchequer.

2.12.2 Form 'C'

Under the provisions of the CST Act, every dealer, who in the course of inter State trade or commerce, sells to a registered dealer, goods of the classes, specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent* (two *per cent* w.e.f. 01.04.2010) of such turnover provided such sales are supported by declarations in form 'C'.

2.12.3 Form 'F'

Under Section 6A of CST (Amendment) Act 1972, transfer of goods not by reason of sales by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempt from tax on production of declaration in form 'F', duly filled in and signed by the principal/officer of the other place of business or his agent or principal as the case may be, along with evidence of dispatch of such goods. Filing of declarations in form 'F' was not mandatory up to May 2002. However, the Act provided for the assessing authority to make such enquiries as he deemed necessary to satisfy himself on bonafides of the transfer such as sale *patties*¹, dispatch particulars, way bills etc.

2.12.4 Form 'E-I' or 'E-II'

Under the CST Act, if a purchasing dealer makes a subsequent inter-State sale by transfer of documents of title to the goods during their movement from one state to another, no tax shall be leviable subject to the production of the prescribed

¹ Statement of sales

certificates in form EI or EII along with declarations in form C to be issued by the selling and purchasing dealer.

Form EI is issued (in duplicate) (i) by the selling dealer who first moved the goods from one State to another or (ii) by the dealer who makes the first inter State sale during the movement of the goods from one State to another.

Form EII is issued (in duplicate) (i) by the first or subsequent transferor in the series of sales or second or subsequent transfer in the series of sales in the course of inter-State trade or commerce.

If the chain of sale and purchase continues after the transactions as shown above, every subsequent purchaser shall issue form 'C' to his preceding seller and every subsequent seller shall also obtain Form 'E-II' from his preceding seller to claim the exemption.

2.12.5 Maintenance of accounts of receipts and use of declaration forms

- The forms are obtained by the Commissioner, Commercial Tax (CCT) from the State Government press and supplied to the divisions for distribution amongst the circle offices under their jurisdiction.
- Declaration forms are issued to registered dealers by circle offices to enable them to issue it to another registered dealer for purposes specified in their registration certificate in order to avail exemption from levy of tax or to pay tax at concessional rate. Dealers have to submit periodical utilisation certificate to the circle office concerned for the declaration forms received and utilised by them, and the same is to be properly recorded by the Assessing Officer. No declaration form is to be issued by the circle office to the dealers till accounts of the utilisation of forms issued earlier to the dealer is submitted by him.

2.12.6 Receipt and issue

- The receipt and issue of the aforesaid declaration forms are accounted for in separate stock registers by the division and circle offices indicating receipt and issue of various declaration forms. When the forms are issued to the dealer, the signature of the dealer as token of receipt is to be obtained in the register.
- Every registered dealer to whom any declaration form is issued by the appropriate authority shall maintain complete account of every such form. The dealer has to furnish utilisation certificate to the competent authority showing the name of dealer to whom the form is issued, bill number and date and description of goods with value.
- Section 10(b) read with Section 10-A of Central Sales Tax Act, 1956 stipulates that, if any registered dealer, falsely represents when purchasing any class of goods which are covered by his certificate of registration; or not being a registered dealer, falsely represents when purchasing goods in the course of inter-State trade or commerce that he is a registered dealer; and after purchasing any goods for any of the purposes without reasonable excuse, to make use of the goods for any such purpose shall be punishable

with simple imprisonment which may extend to six months, or with fine, or with both; and when the offence is a continuing offence, with a daily fine which may extend to fifty rupees for every day during which the offence continues and further, the authority may also impose penalty of a sum not exceeding one-and-a-half times of the tax evaded.

- Tax Information Exchange System (TINXSYS) is a centralised 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 and TINXSYS can be used by any dealer to verify the counter party interstate dealer in any other State.
- Apart from dealer verification, Commercial Tax 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 Department to monitor interstate trade movements and enables the EC to monitor the trends in interstate trade.
- It is essential for every State to send the information to the Finance Ministry for uploading in the website of TINXSYS for easy verification of forms by any user. It was intimated that the Department was not sending the information of these statutory forms to the Finance Ministry, however, it was uploading the relevant information in TINXSYS.

2.12.7 Organisational setup

The Commercial Tax Department is under the overall administrative control of the Principal Secretary (Finance). The Commissioner is head of the department and he is assisted by four Additional Commissioners and eight Deputy Commissioners (DCs). There are five divisions and 27 circles in the State headed by DC at the divisional level and Commercial Tax Officers (CTOs) at circle level. In addition, 17 Assistant Commissioners (ACs) are posted in the circles for assessment of dealers whose turnover exceeds ₹ three crore.

2.12.8 Audit objectives

The review aimed to ascertain whether:

- a foolproof system for custody and issue of the declaration forms was in existence;
- exemption/concession of tax granted by the assessing authorities was supported by the original declaration forms;
- system of uploading the particulars in the TINXSYS website was in existence and the data available there was utilised for verifying the correctness of the forms;

- appropriate steps were taken on receipt and detection of fake, invalid and defective (without proper or insufficient details) forms; and
- an effective and adequate internal control mechanism existed.

2.12.9 Scope and methodology of audit

Test check of nine² ACs and six³ CTO units was conducted between November 2010 and January 2011, covering all assessments completed for the period from 2007-08, 2008-09 and 2009-10. In addition earlier audit observations noticed during the regular audit of seven units⁴ were also re-examined and incorporated at appropriate places in current performance audit. Audit scrutiny also included verification of transactions of goods relating to stock transfers made to branches/agents situated outside Chhattisgarh State and inter-state sale to different parts of the country with reference to various declarations in form 'C', 'F', 'E-I/E-II' and 'D' available on records.

2.12.10 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Department of Commercial Tax in providing the necessary information and records for audit. An entry conference was held with the department on 25 October 2010, in which the department was apprised of the objectives, scope and methodology of audit. The report was forwarded to the Government and the Commissioner on August 2011. An exit conference was held in November, 2011 where in the findings of the review were discussed with the Commissioner of Commercial Tax Department, Government of Chhattisgarh. The Department was also represented by the Additional commissioner and Deputy Commissioner of Commercial tax Department, Government of Chhattisgarh. The replies received during the Exit conference and at other point of time have been appropriately commented in the relevant paragraphs.

2.12.11 Trend of revenue under CST

Budget estimates and actual realisation of revenue under Central Sales Tax for five years are mentioned below:

(₹ in crore)

Year	Budget estimates	Actual realisation	Variations excess(+)/shortfall(-)	Percentage excess/shortfall
2006-07	700.00	702.34	(+) 2.34	(+) 0.33
2007-08	664.00	521.00	(-) 143.00	(-) 21.53
2008-09	400.00	664.14	(+) 264.14	(+)66.03
2009-10	530.00	681.00	(+) 151.00	(+)28.49
2010-11	620.00	745.84	(+) 125.84	(+)20.29

² AC-I and II of Division-II, Bilaspur, AC-II of Durg, AC, Raigarh, four ACs of Raipur and AC, Rajnandgaon

³ Circle-II of Durg, Circle-II, III, IV, V and VI of Raipur

⁴ CTOs : Ambikapur, Bilaspur (CTO-II), Dhamtari, Korba, Janjigir-Champa, Manendragarh and Rajnandgaon

It may be seen from the above table that the actual realisation of revenue was more than the budget estimates except in 2007-08. The percentage of excess achievement during 2008-09 to 2010-11 ranged between (+) 20.29 and (+) 66.03 and the reasons for increase were increase in market price and increase in sale of coal, iron ore and cement. Though the actual realisation of revenue in comparison to budget estimates was on higher side during 2008-09 and 2010-11 continuously, yet it is evident that budget estimates were framed unrealistically by not taking into account the previous years' actual realisation.

As regards 2007-08, the actual realisation was less than 22 *per cent* and the same was due to reduction of the CST rate from four *per cent* to three *per cent* by the Government of India.

During the Exit conference the Commissioner informed that budget was prepared in anticipation of reduction in rate of tax. However, the fact remains the Department had not framed BEs correctly as the BEs framed by the Department for a financial year were always less than the actual collection of the preceding years.

Audit findings

System deficiencies

Section 8 of the Central Sales Tax Act, 1956 read with Rule 8 of the Central Sales Tax (Central) Rules, 1957 and Rule 12 of the Central Sales Tax (R&T) Rules, 1957 stipulates the process of custody, utilisation and maintenance of forms.

Scrutiny of the records revealed the following:

2.12.12.1 Issue and accounting of declaration forms

- It was noticed that the Department did not maintain any record/database to show the year-wise position of sales against 'C'/'F' forms to ascertain the revenue forgone on account of concessions/exemptions.
- There was no system in place to verify the utilisation statements of declaration forms while scrutinising the returns/conducting tax audits.

During the Exit conference the Commissioner informed that issue of declarations through online was started from 18th October 2011 and process of verification through on line will be taken up.

2.12.12.2 Utilisation of declaration forms

- The Department intimated that it had partly made mandatory for the dealers to furnish the declaration forms while submitting the returns in the wake of implementation of VAT Act;
- there was no system of calling for the utilisation statements from the dealers at the time of scrutiny of returns/conducting tax audits, in case these were not available in the case records;

- the Department had not installed a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax; and
- the AOs did not have any details of the branches of the dealers to verify the authenticity of the claims for exemption.

During the Exit conference the Commissioner assured that necessary instructions will be given to field offices. Commissioner informed that necessary instructions will be given to the assessing officers to ensure copy of utilisation certificates is enclosed in the cases; a copy of list of branches of the dealers will be made available to the concerned assessing authorities.

2.12.13 Enforcement measures

Declaration in forms 'C' and 'F' found lost, destroyed, stolen by a dealer etc. or defective forms noticed are required to report to the concerned authority for taking necessary action to declare such forms as invalid by giving wide publicity through issue of circulars to all divisions etc. including defective forms noticed by the Department.

Scrutiny of the records revealed the following that:

- the Department had not issued any notifications/circulars regarding such cases and these details were not intimated to other State Governments also for publication in their gazettes, in case of bogus or non-existent dealers;
- the dealers who were found utilising invalid/fake declaration forms in the past were neither black listed nor circulated among various units and States;
- no data bank on forms declared invalid or dealers found to be fictitious or whose registration certificates were cancelled within and outside the State was maintained by the Department;
- the Department did not keep a sample of the colour, design and format of the forms prevailing in different States for comparison in order to identify the fake or forged declaration forms; and
- the Department had not set-up any Intelligence Wing to assist Commissioner, Commercial Tax. However, it was intimated that the assessing authority sends the doubtful forms to concerned Divisional Commissioner who further sends these to other States for cross verification but no records were shown in support of this.

During Exit conference the Commissioner assured the necessary completion of the online process relating to data bank will be prepared and in case of bogus/non-existent dealers the details of such cases will be intimated to the state Governments; the dealers who are found utilizing invalid/fake declarations will be black listed and the facts will be circulated among various units and States.

Compliance deficiencies

2.12.14 Non-recovery of Central Sales Tax under incentive scheme

Under the tax Exemption Scheme of 1994 notified in October 1994 (issued by Madhya Pradesh Government and adopted by Chhattisgarh Government), new industrial exempted units are eligible for exemption from payment of tax to the extent of the cumulative quantum of tax for specified period or for the period up to the date earlier to the date of expiry of the allowed period on which he achieves the said cumulative quantum allowed in the eligibility certificate. Further, as per Finance Act 2002, if any exempted unit makes interstate sale on the strength of 'C' forms, then the assessed tax will be adjusted in the balance cumulative quantum of tax otherwise the dealer will have to pay the assessed tax in cash.

We found in the test check (January 2011) of the records of the AC-II, Durg that a dealer was engaged in the manufacture and sale of cast iron (C.I.) brake blocks, sleepers, socket etc. and was holding the eligibility certificate for exemption of tax for the period of 19 August 1999 to 18 August 2002 or the cumulative quantum of tax of ₹ 33.99 lakh which ever expired earlier. The above dealer was assessed in February 2006 and subsequently in November 2009 (after appeal) for the period April 2002 to March 2003. The AO granted exemption of tax of ₹ 26.54 lakh. We

observed from the records that the dealer had sold finished goods of ₹ 2.65 crore without 'C' form for the period 2002-03 and the quantum of tax allowed in certificate of ₹ 33.99 lakh had already expired in 2001. In view of the expiry of the certificate, the tax exemption granted by the AO was irregular and this resulted in non-levy of tax of ₹ 26.54 lakh (i.e. 10 per cent of ₹ 2.65 crore).

After we pointed out the case, the AO replied that action would be taken after verification.

2.12.15 Irregular acceptance of 'C' forms

Section 8 of the CST Act read with Rule 12 of the CST (R & T) Rules, provides that every dealer, who in the course of interstate trade or commerce sells to a registered dealer located in other State shall be liable to pay tax under this Act at the rate of four *per cent* provided the sale is supported with declaration form on 'C' issued by the purchasing dealer of the other State duly filled and completed in all respect. Otherwise, tax shall be calculated at double the rate in case of declared goods and at the rate of 10 *per cent* or at the rate applicable for sale of such goods within the State, whichever is higher in case of goods other than declared goods.

2.12.15.1 We found in the test check (March 2010) of records of the CTO, Dhamtari, that a dealer engaged in processing and sale of timber and firewood was assessed in December 2008 for the period April 2005 and March 2006 and had made interstate sale of ₹ 27.95 lakh on the strength of 'C' forms. Further scrutiny of records revealed that date of issue (14 January 2009) of six 'C' forms of ₹ 14.53 lakh was after the date of assessment (24 December 2008).

However, the AO accepted these 'C' forms and allowed concession on tax. This incorrect acceptance of the 'C' forms resulted in non-levy of tax of ₹ two lakh.

After we pointed out the case, the AO replied that the date of assessment on assessment order was wrongly printed as 24 December 2008 instead of 24 February 2009.

The reply was not correct because from a note sheet attached with the case, it was apparent that the case was assessed on 24 December 2008 while the issue date appeared in the 'C' forms as 14 January 2009. Hence, it was clear that the AO accepted these forms after date of assessment.

2.12.15.2 Similarly, we found in the test check (January, 2011) of the records of AC, Raigarh that a dealer engaged in manufacture and sale of steel ingots was assessed in March 2010 for the period April 2006 to March 2007 had availed concessional rate of tax on sale of ₹ 32.60 lakh on the strength of two 'C' forms. Further scrutiny revealed that the two 'C' forms submitted by the dealer included transactions which were pertaining to the period July to October 2007 and as such were not covered in the assessment year. This irregular acceptance resulted in short levy of tax of ₹ 1.96 lakh.

After we pointed this out, the AO replied that action would be taken after verification.

2.12.16 Irregular acceptance of 'F' forms

Section 6-A of the CST Act read with Rule 12(5) of the CST (R&T) Rules stipulates that the declaration in form 'F' may cover transfer of goods during the 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 transaction has to be treated as inter-state sale without declaration and taxed accordingly.

2.12.16.1 We found in the test check (February 2011) of the records of CTO-4, Raipur that a dealer engaged in purchase and sale of electrodes, C.C. wire and aluminum wire was assessed in February 2010 for the period April 2006 to March 2007. The dealer had transferred the stock of ₹ 26.60 lakh to his branch (Angul, Orissa) on the strength of 'F' forms. Further scrutiny of records revealed that the date of issue (26 June 2010) of 'F' forms of ₹ 4.64 lakh was after the date of assessment (03 February 2010) but these were irregularly accepted by the AO. Thus, incorrect acceptance of these forms

resulted in non-levy of tax of ₹ 46,000.

After we pointed this out, the AO replied that no mistake was made in allowing exemption by accepting these forms because earlier the dealer submitted one 'F' form having more than one month transactions and was provided sufficient time to re-submit proper forms. Thus, the new forms were submitted after date of assessment.

The reply is not acceptable as no provision exists in the Act to accept forms after completion of assessment.

2.12.16.2 Similarly, we found in the test check of the records of CTO-6, Raipur that a dealer engaged in purchase and sale of auto parts, claimed exemption of tax for the period April 2006 to March 2007 on account of branch transfer/consignment sale worth ₹ 16.62 lakh on the basis of four 'F' forms. These forms had declarations covering period of more than one month. Since these transactions were beyond one month, the same were liable to be rejected and treated as inter-state sales without valid declaration. Despite this, the AO allowed tax exemption without scrutinising returns and 'F' forms. This resulted in non-levy of tax of ₹ 2.08 lakh.

After we pointed out these cases, the AO replied that necessary action would be taken after verification.

2.12.17 Incorrect exemption under 'E-I' and 'C' sale

Under the CST Act, if a purchasing dealer makes a subsequent inter State sale by transfer of documents of title to the goods during their movement from one State to another, no tax shall be leviable subject to the production of the prescribed certificates in form EI or EII along with declarations in form 'C' to be issued by the selling and purchasing dealer.

The Delhi High Court also upheld⁵ that movement of goods cannot extend beyond physical landing of goods in import in the State otherwise sale will be State sale not 'E-I' and 'C' sale.

2.12.17.1 We found in the test check (December 2010) of the records of CTO-6, Raipur that a dealer engaged in purchase and sale of cables and electrical goods was assessed in December 2009 for the period 2006-07 and was allowed exemption on 'E-I' and 'C' sale of

₹ 20.96 lakh. Further scrutiny of records revealed that during the subsequent sale, the goods were purchased by the selling dealer from New Delhi, Mumbai, Nasik and Pune and delivered at Raipur after a period ranging from one to two months. Since the period was beyond physical landing of goods in import in the State, the exemption allowed was irregular as per above pronouncement. However, the AO did not check the documents while assessing the case and this resulted in non-levy of tax of ₹ 2.62 lakh.

After we pointed out the case, the AO replied that action would be taken after verification.

2.12.17.2 We found in the test check of the records of CTO, Korba that a dealer engaged in purchase and sale of electrical motor and transformer was assessed in August 2008 for the period April 2005 to March 2006 and had availed exemption on the sale of ₹ 1.36 crore. Further scrutiny of 'E-I' and 'C' forms of ₹ 8.61 lakh revealed that date of purchase was shown after the date of sale. Despite this irregularity, the AO allowed exemption which resulted in non levy of tax of ₹ 86,000.

After we pointed out the case, the AO stated that goods were received on challan and bill was prepared after the delivery of goods.

The reply of AO, Korba is not correct as the Sale can never be done before Purchase of goods and the sales tax assessment is required to be done on the basis of purchase bills.

⁵ In the case of M/s Arjun Das Gupta (2007) STJ 209

2.12.18 Short levy of tax due to incorrect determination of goods

As per the notification No.22, dated 30 March 2006 issued by the Government for the period 2006-07, the interstate sale of jute cloth and jute twine is taxable at the rate of one *per cent* on the strength of 'C' forms. It was also upheld in the case of CST Vs M/s Vijay Rope Centre (1995) 98 STC 105 (Bombay) that jute twine does not include Aloe Twine (A. Twine or A. Twills) even though jute twine and A.Twine look akin, use of both commodities are same and both were sold at similar price. Since Jute bags and Aloe twills bags are different commodities, hence, Aloe twills bags sold on the strength of 'C' forms are taxable at four *per cent*. Similarly, hessian cloth is also different and its sale on the strength of 'C' forms is taxable at four *per cent*.

We found in the test check (December 2010) of the records of AC-II, Durg, that two dealers engaged in purchase and sale of hessian cloth and A.Twills bags were assessed in November and December 2009 for the period April 2006 to March 2007 and had sold hessian cloth of ₹ 15.21 lakh and A.Twills bags of ₹ 11.18 crore. Since Hessian cloth and A.Twills bags were not mentioned in the notification, these are taxable at four *per cent*. As against this, the AO levied tax at one *per cent* which resulted in short levy of tax of ₹ 33.98 lakh.

After we pointed out the case, the AO replied that

action would be taken after verification.

2.12.19 Short levy of tax due to incorrect application of rate of tax

Under the provisions of the CST Act, every dealer, who in the course of inter State trade or commerce, sells to a registered dealer, goods of the classes, specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent* of such turnover provided such sales are supported by declarations in form 'C'.

We found in the test check (November 2010) of the records of AC, Raipur that a dealer engaged in manufacture and sale of steel semis and sponge iron. The dealer was assessed in August 2009 for the period April 2004 to March 2005 and had sold coal based lumps of ₹ 52.35 lakh against 'C' form. The AO levied tax at the rate of one *per cent* instead of four *per cent* treating it as

sponge iron. This resulted in short levy of tax of ₹ 1.57 lakh.

After we pointed out the case, the AO replied that action would be taken after verification.

2.12.20 Non levy of tax due to suppression of turnover

According to the notification No.23 dated 23 March 2004 issued by Government for period April 2004 to March 2005, interstate sale of sponge iron by a registered dealer against 'C' form is liable to tax at one *per cent*. Under the Tax Deferment scheme of 1994 notified in October 1994, only the registered dealer holding eligibility certificate for deferment of payment of tax can avail the facility.

Section 69 of the Chhattisgarh Commercial Tax (CGCT) Act 1994 stipulates that if the Commissioner or the appellate or the Revisional authority during any proceeding is satisfied that the dealer has concealed his turnover or the aggregate amount of purchase in respect of any goods or has furnished false particulars, the authority concerned may initiate proceedings for imposing penalty up to five times but not less than three times of the tax evaded. Submission of false or misleading or deceptive declaration, accounts or documents amounts to evasion of tax and attracts penalty on the tax evaded, in addition to amount of tax payable by the dealer.

We found in the test check (November 2010) of the records of the AC, Raipur that a dealer engaged in steel semis and sponge iron was assessed in August 2009 for the period April 2004 to March 2005 and had sold sponge iron of ₹ 28.72 crore during interstate sale. Further scrutiny of records revealed that 'C' forms for ₹ 7.06 crore which were attached with the case belonged to another dealer who had the facility of deferment from payment of tax. Thus, the dealer had suppressed the turnover and misrepresented the facts. However, the assessment was done by the AO without undertaking any preliminary checks. This incorrect acceptance of the forms by the AO resulted in non-levy of tax of ₹ 7.06 lakh besides

minimum three times penalty of tax evaded amounting to ₹ 21.18 lakh.

After we pointed out the case, the AO replied that action would be taken after verification.

2.12.21 Non levy of penalty under Section 10-A of Central Sales Tax Act

As per the Section 10-A of Central Sales Tax, 1956 read with Section 10(b), if a registered dealer purchases such goods which are not mentioned in his registration certificate against 'C' forms, the authority can impose penalty upon the assessee equivalent to one and half times the tax which would have been payable.

It has also been judicially⁶ upheld that purchase against 'C' forms of goods not mentioned in registration certificate is an offence and penalty can be imposed.

We found in the test check of the records of CTO, Janjgir-Champa and Durg that three dealers engaged in manufacture and sale of *gitti* and works contract were assessed between January 2008 and December 2009 and had purchased Tata hitachi, JCB machine and Crane. However, these goods were not mentioned in their registration certificates. Despite this, the AO did not impose penalty on the purchases of ₹ 61.90 lakh. This resulted in non-imposition of penalty of ₹ 7.67 lakh.

After we pointed out the case, the AO, Janjgir replied that action would be taken after verification and the AO, Durg replied that the dealer had been engaged in works contract and purchase against 'C' form is justified.

The reply is not in consonance with the provisions of the Act because the goods purchased were not mentioned in the dealers' Registration Certificates.

2.12.22 Irregular exemption on 'duplicate' portion (second copy) of 'C' forms

The 'C' form is issued by a purchasing dealer in two copies. The copy marked 'original' is enclosed by the selling dealer with his return and the copy marked 'duplicate' is retained in his records.

It has been judicially⁷ held by the Supreme Court of India that production of 'original' 'C' form claiming concessional rate of tax is mandatory to prevent the forms being misused for the commission of fraud and collusion with a view to evade payment of tax.

We found in the test check of the records of CTOs Dhamtari and Korba and ACs, Durg, Raigarh and Raipur that six dealers engaged in sale and purchase of iron and steel, timber, machinery parts and coal had submitted 'duplicate' portion of 'C' forms with their returns, involving sale value of ₹ 3.79 crore. As per the rules, the 'duplicate' portion of

⁶ In the case of State of Tamilnadu Vs Akhtar (1998) 108 STC 510 (Madras High Court DB)

⁷ M/s India Agencies Vs Addl. Commissioner of Commercial Tax (16 December 2004) (SC)

M/s Delhi Automobiles Private Limited Vs Commissioner of Sales Tax (1997) 104 STC 75 (SC)

forms should have been rejected and tax of ₹ 23.89 lakh should have been levied by treating the transactions as inter-state sale without 'C' form. However, it was found that the same was not done by the AOs.

After we pointed out the cases, AOs Korba, Durg and Raigarh replied that action would be taken after verification and AO Dhamtari replied that taxation was correct as per the judgement in the case of *M/s Manganese Ore (India) Ltd. Vs CST (MP) 2005 7-STJ-412 (MP HC)*.

Reply of the AO, Dhamtari is not in consonance with the provisions of the Act and Supreme Court judgement.

2.12.23 Irregular deduction on transfer of goods to undeclared branch

Sub section (1) of Section 7 of the CST Act stipulates that every dealer has to declare his places of business in other States at the time of seeking registration. Further, sub section (1) of Section 6-A read with Rule 12(5) of the CST (R&T) Rules provides that a declaration in form 'F' has to be submitted for transfer of goods to other places of business or to his agent or principal.

The exemptions allowed during the assessment years 2007-08 to 2009-10 on account of branch transfer/consignment sale were not quantifiable by the department. The AO of the level of ACs did not have details of the branches of the dealers to verify the authenticity of the claims for exemption on account of branch transfer/consignment.

Further, we found in the test check of the records of CTOs, Manendragarh, Rajnandgaon and Raipur between December 2009 and October 2010 in five cases of four

dealers engaged in liquefied petroleum gas, sprinkler system, exothermic material and pesticides that the dealers availed exemption of tax on a turnover of ₹ 2.03 crore during the period April 2004 to March 2007 on account of branch transfer. Scrutiny of the registration certificates of the dealers indicated that the branches to which stock was claimed to have been transferred were not included in the registration certificates of the dealers. Failure of the AOs to scrutinise the 'F' forms with reference to the declared branches as per registration certificates resulted in non levy of tax of ₹ 20.28 lakh and penalty of ₹ 60.84 lakh.

After we pointed this out, the AO, Manendragarh stated (December 2009) that action would be taken after verification. The AO, Rajnandgaon replied (January 2010) that stock transfer was as per rules. In another case, the CTO, Raipur replied (October 2010) that branch at Vapi (Gujrat) was mentioned in the dealer's memorandum and articles of association.

The reply of CTO, Raipur is not in consonance with the provisions of the Act because list of branches of the dealer should be included in his Registration Certificate only. The reply of AO, Rajnandgaon is not acceptable because Ranchi (Jharkhand) and Coimbatore (Tamil Nadu) where goods were sent were not mentioned in the dealer's Registration Certificate.

We recommended that the Government may consider developing a database containing names of the dealers; names of the branches; registration number of the branches; nature and value of the goods transferred as branch transfer/consignment sale by dealers and exemption of tax allowed as it would institute an important control and assist in making assessments.

2.12.24 Incorrect issue of bills on inter-state sale

As per the Chhattisgarh Commercial Tax Act, 1994 tax paid goods means any goods specified in Schedule-II which have been purchased by a dealer from a registered dealer inside the State.

We found in the test check of the records of AC-II, Bilaspur, CTO and AC, Rajnandgaon, that 10 dealers engaged in purchase and sale of bidi leaves and other goods from Forest Department and other dealers

for inter-state sale were assessed between November 2007 and December 2009 for the period April 2005 to March 2008 on the production of declaration forms ('C'/'D'). Our scrutiny of the assessment order and records revealed that though the 'C' and 'D' forms were obtained by the selling dealers registered in Chhattisgarh but sale invoices in respect of these sales were not issued by them, these invoices were issued by the Forest Department and other dealers directly to the purchasing dealers of other State. The issue of such sales invoices by the Forest Department/dealers directly to the purchasing dealers of other states was incorrect and is fraught with the risk of evasion of tax. The invoices should have been issued by the dealers who had made inter-state sales and furnished declaration forms. During the assessment, the AO did not scrutinise these sale invoices while finalising the assessments. This indicates absence of monitoring control to watch the documentary evidence in support of the inter-state sale shown in the returns filed by the dealer which is fraught with the risk of escapement of taxable turnover.

This was pointed out to the Department/Government in July 2011; their reply has not been received (October 2011).

2.12.25 Incorrect allowance of concessional rate of tax in the absence of declaration forms

Section 8 of the CST Act read with Rule 12 of the CST (R &T) Rules, provides that every dealer, who in the course of interstate trade or commerce sells to a registered dealer located in other State shall be liable to pay tax under this Act at the rate of four per cent provided the sale is supported with declaration form on 'C' issued by the purchasing dealer of the other State duly filled and completed in all respect. Otherwise, tax shall be calculated at double the rate in case of declared goods and at the rate of 10 per cent or at the rate applicable for sale of such goods within the State, whichever is higher in case of goods other than declared goods.

We found in the test check of the records of AC, Rajnandgaon, AC, Korba and AC-I (Div.I) Bilaspur that three dealers were engaged in manufacture and sale of edible oil, sodium nitrate, ferro alloys and mining machineries and were assessed between April 2007 and June 2009 for the period from April 2004 to March 2007. These dealers had availed concessional rate of tax on the sale of ₹ 10.53 crore. During scrutiny, no declaration forms were found in the cases and despite this, AOs allowed concessional rate of tax in these cases. This resulted in non-levy of tax of ₹ 1.02 crore.

After we pointed this out, the AOs replied that action would be taken after verification.

2.12.26 Incorrect application of concessional rate of tax on invalid 'C' forms

According to the Rule 12(7) of Central Sales Tax (R&T) Rule 1957, as amended from 01.10.2005, a single declaration of 'C'/'D' may cover all transactions of sale which take place in a quarter of financial year.

We found in the test check of the records of AC-I (Div.I), Bilaspur, AC-II, Durg and CTO, Ambikapur that three dealers engaged in purchase and sale of *bidi* leaves and manufacture and sale of iron and steel for the period April 2005 to March 2007 who were assessed

between February 2009 and February 2010 had sold goods of ₹ 3.52 crore. Further scrutiny revealed that eight 'C'/'D' forms had transactions of more than a quarter in a financial year. However, the AOs failed to scrutinise these invalid forms which led to short levy of tax of ₹ 30.90 lakh.

After we pointed this out, the CTO, Ambikapur accepted the case and raised the demand for ₹ 4.07 lakh. Others replied that action would be taken after verification.

2.12.27 Evasion of tax on fake 'C' forms and non-levy of penalty

Under the provisions of the CST Act, every dealer, who in the course of inter State trade or commerce, sells to a registered dealer, goods of the classes, specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent* (two *per cent* w.e.f. 01.04.2010) of such turnover provided such sales are supported by declarations in form 'C'.

Our Scrutiny revealed that the department did not have any prescribed system of selecting transactions for cross verification of declaration forms submitted by the dealers for claiming concessions/exemptions. In the absence of any fixed criteria or minimum *per cent* check, the extent of cross verification to be carried out is solely at the discretion of the AO.

During test check of the records of nine ACs and six CTOs, a sample of 596 'C' forms was selected by audit for cross verification.

Our Cross verification of declaration forms with the relevant States revealed that 61 forms involving sale of ₹ 5.97 crore produced by the Chhattisgarh dealers were not issued by the assessing authorities of relevant States. This indicated that the forms were not genuine. Thus acceptance of incorrect forms resulted in evasion of tax of ₹ 40.62 lakh besides non-levy of minimum penalty of ₹ 121.86 lakh as mentioned in the following table:

(₹ in lakh)

S. No.	Name of the issuing State	Number of 'C' forms found fake	Amount involved	Evaded Tax	Penalty leviable
1	Bihar	1	1.78	0.41	1.23
2	New Delhi	1	11.53	0.63	1.88
3	Madhya Pradesh	15	134.87	7.81	23.43
4	Maharashtra	5	83.59	5.63	16.89
5	Uttaranchal	9	107.68	7.55	22.65
6	Uttar Pradesh	1	55.58	4.46	13.40
7	West Bengal	2	5.87	0.38	1.14
8	Andhra Pradesh	13	112.36	6.38	19.13
9	Orissa	14	83.63	7.37	22.10
Total		61	596.89	40.62	121.86

It is recommended that the Department may consider fixing a criteria or minimum *Per cent* check of cross verification to be carried out solely at the discretion of the AO and also initiating necessary steps to prepare a database for such forms verification.

2.12.28 Evasion of tax on fake 'F' forms and non-levy of penalty

During test check of the records of nine ACs and six CTOs, a sample of 307 'F' forms were selected by audit for cross verification as the authenticity of these forms *prima facie* appeared doubtful.

Cross verification with the relevant States revealed that 39 forms involving sale of ₹ 11.96 crore were fraudulently used by Chhattisgarh dealers to evade tax. The assessing authorities of relevant States certified that the dealers involved in these transactions were not issued these forms. This resulted in evasion of tax of ₹ 1.15 crore besides non-levy of minimum penalty of ₹ 3.46 crore as mentioned below:

(₹ in lakh)

Sl. No.	Name of the issuing State	Number of 'F' forms found fake	Amount involved	Evaded Tax	Penalty
1	Haryana	12	215.79	17.26	51.79
2	Maharashtra	20	780.62	78.20	234.59
3	New Delhi	5	138.60	13.86	41.58
4	Uttar Pradesh	1	53.56	5.36	16.07
5	Punjab	1	7.25	0.72	2.17
Total		39	1195.82	115.40	346.20

2.12.29 Irregular exemption of tax on incomplete 'C' forms

Under the CST Act, and the rules framed thereunder, declaration form 'C' complete in all respects i.e. bearing registration number, date of issue by the transferee, transport details etc. should be furnished to avail exemption from levy of tax on account of the *inter-state* sale.

We found in the test check of the records of AC-II, Durg and AC, Raigarh that two dealers availed concessional rates on sales worth ₹ 0.94 crore. Scrutiny of five 'C' forms revealed the discrepancies as mentioned in the following table:

Number of forms	Deficiency	Reply of the department	Audit comment
1	Date of issue, Name of selling dealer, registration no. etc. not mentioned in the forms.	The seal of issuing authority and name & RC no. of purchasing dealer mentioned.	Reply is not convincing because form with incomplete data was submitted by the dealer.
4	Purchaser's TIN not mentioned.	Action would be taken after verification.	

In the absence of these details, the forms were prima facie liable to be rejected and to be taxed as per the provisions of the Act. Failure of the AOs to scrutinise these forms resulted in non levy of tax of ₹ 5.08 lakh.

2.12.30 Short levy of tax due to incorrect application of rate of tax

Rule 6 and 8(5) of Central Sales Tax (Central) Rules, 1957 stipulates that every registered dealer liable to pay tax shall maintain correct account of his purchases, sales and stocks showing value of different kinds of goods subject to different rates of tax. Further, every registered dealer to whom any declaration in Form 'C' is issued by authority shall maintain in a register in Form-VII a true and correct account of every such form received from the said authority.

As per CGVAT Act, 2005 read with Schedule-II, home appliances and plastic goods were taxable at 12.5 per cent and according to notification no. 57 dated June 2006, plastic buckets were taxable at four per cent. Section 54 of the CGVAT Act, 2005 stipulates that the Commissioner may impose penalty if the dealer has concealed his turnover or the aggregate amount of purchase prices in respect of any goods or has furnished false particulars of his sales or purchase in his return at three to five times of tax evaded.

We found in the test check (January 2011) of assessment records of the CTO-IV, Raipur that a dealer engaged in purchase and sale of home appliances, bucket, cooker etc. for the period April 2006 to March 2007 and assessed in January 2010 mentioned import purchases of buckets in both Form-VII and purchase list of ₹ 48.88 lakh. As such, the AO also levied tax at four per cent on the sale of ₹ 45.59 lakh during the year. Further cross verification with Form 59-A and copy of accounts ledger issued by seller revealed that the dealer actually purchased home appliances/ plastic goods worth of ₹ 48.88 lakh but not the buckets. Thus, the AO assessed tax at lower rate without verifying the documents which resulted in short levy of tax of ₹ 3.88 lakh on the sale of ₹ 45.59 lakh at the differential rate of 8.5 per cent besides

non-levy of minimum penalty of ₹ 11.64 lakh.

After this case was pointed out (January 2011), the department intimated (July 2011) that the case was re-opened and demand of ₹ 11.63 lakh was raised.

2.12.31 Incorrect exemption in the absence of 'F' forms

Section 6-A of the CST Act read with Rule 12(5) of the CST (R&T) Rules, provides that exemption of tax to a registered dealer is granted in case of branch transfer/ consignment sale, provided they are supported by a declaration in form 'F'.

We found in the test check of the records of AC, Rajnandgaon that a dealer engaged in manufacture and sale of edible oil assessed in January 2008 for the period from April 2004 to March 2005 was granted exemption

on stock transfer of ₹ 31.98 crore. Further scrutiny revealed that no 'F' forms

were found to support the stock transfer. Thus, grant of exemption by the AO without verifying supporting documents led to non-levy of tax of ₹ 3.20 crore.

After we pointed this out, the AO replied that action would be taken after verification.

2.12.32 Short accountal of purchased/imported goods

Section 41 of the Chhattisgarh Value Added Tax Act, 2005 stipulates that every registered dealer liable to pay tax shall maintain correct account of his purchases, sales and stocks showing value of different kinds of goods subject to different rates of tax.

2.12.32.1 During the cross verification with other States, it was found that 36 Chhattisgarh dealers accounted for lower purchases in 49 'C' forms involving an amount of ₹ 6.60 crore in their books of accounts thereby concealing purchases. These facts were confirmed by the relevant assessing authorities of other States after verifying with sellers records. Suppression by the Chhattisgarh dealers of actual value of goods purchased from other States and

non-verification of the same by the AO led to non-levy of tax of ₹ 31.22 lakh besides penalty of ₹ 93.65 lakh as mentioned below:

(₹ in lakh)

Sl.No.	Name of the receiving State	Number of 'C' forms	Difference amount	Evaded Tax	Penalty
1	Delhi	1	5.35	0.21	0.64
2	Gujarat	6	5.47	0.31	0.94
3	Haryana	2	48.40	1.94	5.81
4	Maharashtra	1	28.45	1.14	3.41
5	Orissa	27	369.43	15.25	45.74
6	Rajasthan	8	90.12	3.92	11.76
7	Tamil Nadu	2	46.60	5.82	17.47
8	Uttar Pradesh	2	65.68	2.63	7.88
Total:		49	659.50	31.22	93.65

2.12.32.2 Similarly, nine Chhattisgarh dealers accounted for lower purchases in 24 'F' forms involving an amount of ₹ 8.98 crore in their books of accounts thereby concealing transferred (imported from other States) goods. These facts were confirmed by the relevant assessing authorities of other States. Suppression by the Chhattisgarh dealers of actual value of goods transferred from other States and non-verification of the same by the AO led to non-levy of tax of ₹ 41.01 lakh besides penalty of ₹ 1.23 crore as mentioned below:

(₹ in lakh)

Sl.No.	Name of the receiving State	Number of 'F' forms	Amount involved	Evaded Tax	Penalty
1	Bihar	1	18.00	2.25	6.75
2	Gujarat	3	7.72	0.32	0.96
3	Maharashtra	2	40.76	5.09	15.27
4	Orissa	17	826.17	33.12	99.36
5	West Bengal	1	5.80	0.23	0.69
Total:		24	898.45	41.01	123.03

2.12.33 Computerisation

The Department made filing of e>Returns mandatory from July 2010 to the dealers whose turnover exceeds ₹ 40 lakh. However, the Department had not followed any procedure for on-line issue of statutory forms. Since the Department was not undertaking the uploading of utilisation of declaration forms like 'C'/ 'F'/ 'H'/ 'E-I, E-II' etc., it was not possible to cross verify the authenticity of these forms.

2.12.34 Internal Audit

Internal Audit is a vital component of the internal control mechanism and is generally defined as the control of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. The Internal Audit Wing (IAW) attached to the office of the Commissioner consisted of only one officer of the rank of Assistant Commissioner and no other official was posted in the wing. The internal audits conducted by the wing during the last three years are mentioned below:

Sl. No.	Year	Total number of assessing units	Number of internal audits conducted		Number of IRs issued during the year	Number of IRs settled during the year
			Number of units audited	Number of assessment checked		
1	2008-09	43	3	117	3	Nil
2	2009-10	43	8	217	8	Nil
3	2010-11	43	1	21	1	Nil

Thus, the performance of the IAW in terms of coverage, periodicity and number of objections raised, had ranged between two and 18 *per cent* and the objections raised by the wing were not getting settled through appropriate action.

This indicates that the Department was not according due importance to internal audit and had not taken appropriate action to settle IRs.

2.12.35 Conclusion

The Department had not put in place any system to verify the utilisation statements of declaration forms while scrutinising the returns/conducting tax

audits. Further, there was no system installed for verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax.

There were instances of failure of the AOs to cross verify the declarations submitted by the dealers claiming concessions/exemptions with other States. Appropriate steps were not taken by the Department on detection of fake, invalid or defective forms. Audit had recommended in the earlier review (Audit Report 2008-09) on “Levy and collection of Central Sales Tax” regarding obtaining the samples of declaration forms from other States for easier identification of forms. However, the Department could not collect samples even after lapse of one year. No central database of tax exemptions/concessions sanctioned and availed was maintained by the Department. Audit observed cases of irregular acceptance of ‘C’ and ‘F’ forms, irregular tax exemption on incomplete ‘C’ forms, short account of purchased/imported goods etc. Internal audit, as part of the internal control mechanism, was found to be inadequate.

2.12.36 Recommendations

The Government may consider:

- obtaining of sample declaration forms from other States for easy reference to ascertain the genuineness at the time of assessment of cases;
- forwarding utilisation certificates of statutory forms submitted by the dealers from circles to ACs, for cross verification;
- creating a database to evaluate the extent of exemptions/concessions allowed;
- preparing checklist on various points to be checked essentially before acceptance of these forms;
- strengthening the Internal Audit Wing and ensuring time bound action on suggestions of the wing; and
- initiating a system for online issue of declaration forms.

2.13 Audit Observations on Assessments/ Returns

We scrutinised assessment records of sales tax/value added tax (VAT) in Commercial Taxes Department and found several cases of non-observance of provisions of the Acts/Rules, non/short levy of tax/penalty/interest, incorrect application of rate of tax, incorrect deduction from taxable turnover, incorrect exemption and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are only illustrative and are based on a test check carried out by us. Such omissions on the part of assessing authorities (AA) are pointed out in audit each year, but not only do the irregularities persist but these also remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of the internal audit to ensure that such omissions are detected and rectified.

2.14 Non-observance of the provisions of the Acts/ Rules

The Chhattisgarh Commercial Tax Act 1994 provides for:

- (i) levy of tax at the rates prescribed in the Acts and the notifications issued there under,
- (ii) levy of interest for non/delay in payment of tax, at the rates prescribed in the Acts.
- (iii) levy of penalty at the prescribed rate for contravention of the certain provisions of the Act and
- (iv) allowing exemption of turnover subject to fulfilment of the prescribed conditions.

We noticed that the AAs while finalising the assessment did not observe some of the provisions which resulted in non/short realisation of revenue as mentioned in succeeding paragraphs.

2.15 Incorrect exemption on taxable goods

According to Notification No. A-3-46-2000-ST-V (52) dated 17.7.2000, tractor trailers for use in agriculture purpose is exempted from payment of sales tax; otherwise it is taxable at the rate of 4.6 per cent (with surcharge).

We found in the assessment records of three Commercial tax Officers⁸ (CTOs) between April 2009 and March 2010 that eight dealers engaged in manufacture and sale of tractor trailers for the period between 1 April 2002 and 31 March 2006 and assessed between June 2005 and January 2009 sold tractor trailers valued at ₹ 8.63 crore during the year 2002-

2006. The CTOs while finalising the assessment exempted the sale from levy of tax though no proof that the sale was made for agriculture purpose was produced by the purchasers. We found from their sale lists and other dealers' purchase accounts that the manufacturing dealers had sold goods to the dealers for sale and

⁸ Dhamtari, Rajnandgaon and Raipur

not to the farmers. Thus, exemption granted was incorrect and resulted in loss of revenue of ₹ 39.70 lakh.

After we pointed this out, the Government re-opened (September 2011) five cases for further scrutiny and raised demand notices in three cases. Reply has not been received in the remaining cases.

2.16 Incorrect deduction from taxable turnover

As per the Chhattisgarh Commercial Tax Rules, 1995, every registered dealer is required to furnish a copy of goods account, purchase list, computation sheet and documents relating to deductions shown in return along with the last return for the year, failing which tax as prescribed in the Schedule should be leviable. Medicine is taxable at the rate of 9.2 per cent including surcharge.

We found in the assessment records of the Assistant Commissioner (AC), Commercial Tax, Raipur (June 2009), that a dealer engaged in clearing and forwarding of medicines for the period April 2004 to March 2005 and assessed in November 2007, availed deduction of life saving drugs of ₹ 2.57 crore for which no supporting documents were attached with the case. Despite this, the AO granted deduction on the entire amount which was irregular in view of the rules *ibid* and tax at the rate of 9.2 per cent (including surcharge on medicine)

should have been levied. Thus non-levy of tax has resulted in non-realisation of revenue of ₹ 23.61 lakh.

After we pointed this out, the Department intimated (December 2011) that the case was re-opened and notice has been issued to the dealer.

2.17 Non levy of penalty

Raw *matar* is tax-free item under the CGVAT Act 2005. *Bhune matar*, is taxable at the rate of 12.5 per cent. Further, the Act provides that if a dealer conceals his turnover, or furnished false particulars of his sales or purchases, the Commissioner may initiate proceeding for imposition of penalty which shall not be less than three times but shall not exceed five times of the amount of tax evaded is payable by the dealer. This is in addition to the tax payable by the dealer.

We found in the assessment records of the Commercial Tax officer-V, (CTO) Raipur (February 2011) that a dealer registered for the manufacturing of *bhuna matar* assessed in March 2010 for the year 2006-07 was exempted from payment of tax on sale of raw *matar* valued at ₹ 1.44 crore. On scrutiny of the Audit Report submitted by the dealer we found in the annexure attached with the Audit Report that the sale of raw material was shown as NIL and the sale of finished goods i.e *bhuna matar* are

taxable good was shown as 8.83 lakh kilograms valued at ₹ 1.43 crore. The dealer had inserted a forged white page in manufacturing and trading account which indicated that the accounts were forged. Thus exemption availed of by the dealer was incorrect.

We further cross verified the accounts of the dealer with records of Income Tax Department and found that in manufacturing and trading account the dealer had sold *bhuna matar* which is a taxable good and not raw *matar*. Thus, exemption availed of was incorrect and resulted in non-levy of tax of ₹ 17.89 lakh. As the dealer furnished wrong particulars for evading tax through manipulation of records, penalty amounting ₹ 89.43 lakh was also leviable under the Act.

After we pointed this out, the Government accepted (September 2011) our audit observation, re-opened the case under Section 22(1) and raised a demand notice of ₹ 1.07 crore against the dealer.

2.18 Application of incorrect rate of tax

According to the Chhattisgrah Value Added Tax Act, 2005, goods are taxable at the rates prescribed from time to time.

We found in the assessment records of the four Commercial Tax Officers (CTOs) Circles, (between July 2010 and February 2011), that the CTOs levied tax of ₹ 16.28 lakh at the rate of four *per cent* on the total sale

value of ₹ 439.27 lakh from five dealers on the sale of residuary goods as against the leviable at the rate of 12.5 *per cent*. In the case of another dealer, complete tax exemption was granted. Thus levy of tax at lower rate in four cases and grant of irregular tax exemption in one case resulted in loss of revenue of ₹ 32.86 lakh as detailed below:

Sl. No	Name of office	Residuary goods.	Sale Amount (in lakh)	Tax levied (@ 4%)	Tax leviable (@ 12.5%)	Short levy
1	CTO Circle II Durg	Copper scrap, Brass scrap	179.57	7.18	19.95	12.77
After we pointed this out, the Department intimated (December 2011) that copper scrap and brass scrap come under entry No. 48 of Annexure II of CGVAT Act, 2005 for which the rate of tax is 4 <i>per cent</i> and as such correct taxation has been done by the AO. The reply is not acceptable because as per Notification No. F-10/56/2006/CT/v (73) dated 26.9.2006 aluminium scrap was included as Industrial Input which is taxable at 4 <i>per cent</i> which clearly indicates that metal scrap was not included in entry 48 of Annexure II of CGVAT Act 2005.						
2	CTO Circle I Raipur	Surgical goods	90.35	3.56	10.04	6.48
After this being pointed out the Department stated that the dealer is engaged in the business of medical equipments not surgical goods, due to typographical error in the assessment order instead of medical equipments it was mentioned surgical goods. The reply is not correct as declaration form of import goods the form 59 (A) enclosed with the case indicates that the dealer had purchased surgical goods not the medical equipments.						
3	CTO Circle V Raipur	Dripline pipe	70.59	2.71	7.83	5.12
After this being pointed out the Department stated that the dealer had deposited the amount of ₹ 5.12 lakh through e-payment.						

4	CTO Circle VI Raipur	Glassware/ Crockery	73.62	2.83	8.18	5.35
This was intimated to the Department and to the Government in July 2011, their reply has not been received (October 2011).						
5	CTO Circle I Raipur	Tarpaulin	25.14	Nil	3.14	3.14
After this being pointed out by us the Department stated that the dealer had sold canvas cloth amounting to ₹ 25.14 lakh up to the period 30.9.06, and had sold tarpaulin only after 1.10.06 and as such correct assessment has been made by the AO. The reply is not correct as the purchase list and calculation sheet submitted by the dealer were found attached with the assessment order in the assessment file of this dealer which clearly shows that he had purchases and sold tarpaulin during the period in question.						
Total			439.27	16.28	49.14	32.86

2.19 Irregular exemption of entry tax

Sugar is a tax free item under Chhattisgarh Commercial Tax Act, 1994, however under Chhattisgarh Entry Tax Act, 1976 entry of sugar from a local area to another local area is taxable at one per cent. If a dealer has concealed his turnover or has furnished false particulars, the authority concerned may initiate proceeding for imposing penalty of minimum three times of the tax evaded.

We found in the assessment records (May 2009) of the Assistant Commissioner (AC) Raipur for the period 1 April 2003 to 31 March 2004 that a dealer assessed in December 2006 purchased sugar of ₹ 3.99 crore from outside of the State. Of this, the dealer made interstate sale of ₹ 3.87 crore to dealers of Orissa. We cross verified the lorry receipts enclosed with the assessment order with the Transport Department of Orissa and found that the vehicle number in which it was claimed to have been carried were

two wheelers not trucks. Thus, lorry receipts submitted by the dealer were fabricated and, the grant of exemption in this case was incorrect. The dealer was liable to pay entry tax of ₹ 3.87 lakh along with penalty of ₹ 11.61 lakh.

After we pointed this out, the Department intimated (December 2011) that the case was re-opened under section 22(1) and raised a demand notice of ₹ 7.74 lakh against the dealer.

2.20 Non-levy of entry tax

According to Section 3 of Chhattisgarh Entry Tax Act, 1976 read with Schedule II, entry tax shall be paid on entry of goods in the local area by the person who receives the goods in that area. Entry tax on cement is one per cent and iron and steel is one and half per cent.

We found (February, 2010) in the assessment records of the Assistant Commissioner-I (AO), Durg in four cases of three dealers, engaged in purchase and sale of cement, iron and steel and were assessed between November 2006 and December 2008 for the period April 2004 to March 2006. While assessing the entry tax, the

AO allowed exemption on the purchase value of ₹ 7.44 crore (₹ 3.99 crore of cement and ₹ 3.45 crore of iron and steel) by treating it as direct sale to the customer from factory. However, our scrutiny of the purchase bills revealed that manufacturers raised bills only in the name of the registered dealers and in turn, these dealers simply issued *kachcha* sale invoices in a white paper to the customers i.e. purchasers. Despite non-submission of proof of direct sale, the AO allowed the exemption which was incorrect and resulted in non-levy of entry tax of ₹ 9.17 lakh.

After we pointed this out, the Department intimated (December 2011) that the case was re-opened under section 22 (1) and raised demand notice against the dealer.

2.21 Non-levy of tax on declaration sale

According to Chhattisgarh Commercial Tax Act, 1994 read with notification No. 70 dated November 2001, sale of finished goods by manufacturer of iron and steel is exempt from payment of tax if they were manufactured out of those goods that had borne tax at the rate of two per cent.

We found in the assessment records of the Assistant Commissioner-I (AC), Durg (February 2010) that a dealer engaged in manufacture and sale of re-rolled products like steel rounds, rods, flats, angles etc. for the period 2004-05 and assessed in January 2008 was allowed exemption on the sale of finished goods valued at ₹ 4.04 crore. Our scrutiny revealed that the dealer had purchased raw materials from exempted unit without paying any tax as such he was not entitled to any exemption from

payment of tax on the sale of finished goods. However the AC while assessing the case allowed exemption resulting in non-levy of tax of ₹ 8.08 lakh.

After we pointed this out, the Department intimated (December 2011) that tax was calculated on the sale of finished goods. Reply is not correct as in this case no tax was paid on the raw material, as such exemption on sale of finished goods was not admissible.

2.22 Incorrect allowance of input tax rebate

According to Section 13 of Chhattisgarh Vat Act, 2005, read with entry no 2 and 4 of the Schedule III, capital expenditure on land and civil construction for use in manufacture or trade including office building and other related constructions, furniture and fixture including air conditioners and refrigerators are not eligible for input tax rebate.

We found (February 2011) in the assessment records of the Assistant Commercial Tax Officer, (ACTO) Circle-V, Raipur that a dealer engaged in manufacture and sale of cement in the year 2006-07 and assessed in December 2009 was allowed input tax rebate (ITR) of ₹ 3.96 lakh on the purchase of mild steel (M.S.) round, M.S. angle, computer and electrical goods etc.

(capital goods) of ₹ 1.03 crore at the rate of four *per cent* and ₹ 0.62 lakh on cement purchase (capital goods) of ₹ 5.58 lakh at the rate of 12.5 *per cent* used in civil work for construction of cement plant. The allowed ITR was irregular in view of provision of the Act. This resulted in excess claim of ITR of ₹ 4.57 lakh.

After we pointed this out, the Department/ Government accepted the audit observation and stated (September 2011) that the case has been re-opened for further scrutiny. Further progress made has not been received (October 2011).

2.23 Incorrect exemption on sale of taxable goods

According to Section 9 read with Schedule II of Chhattisgarh Commercial Tax Act 1994, tax on sale of electronic goods is 9.2 *per cent* (including surcharge).

We found in the assessment records of Commercial Tax Officer-I (CTO), (September 2009) Raipur that a dealer engaged in purchase and sale of electronic goods for the period between 1 April 2004 and 31 March 2005 and assessed in December

2007 had total turnover of ₹ 1.50 crore, out of which ₹ 26.48 lakh were shown as tax free goods on account of re-charge voucher. Our scrutiny of the dealer's accounts revealed that the dealer had not purchased any recharge voucher but had shown purchases of only electronic goods as such the exemption allowed was incorrect which resulted in non levy of tax of ₹ 2.44 lakh.

After we pointed this out, the Department intimated (December 2011) that the case was re-opened under section 22(1) and raised a demand notice of ₹ 2.44 lakh against the dealer.

CHAPTER-III: STAMP DUTY & REGISTRATION FEE

3.1 Tax administration

The Registration Department collects revenue for the Government in the form of stamp duty and registration fee which are the major sources of revenue for the Government. Stamp duty is leviable on the execution of instruments and registration fee is payable at the prescribed rates. Evasion of stamp duty and registration fee are commonly resorted through undervaluation of properties, non-presentation of documents in the office of the registration authority and non/short payment of stamp duty by the executants on the documents submitted before the registering authority. Department follows the undermentioned Acts and Rules for collection of stamp duty and registration fees:

- Indian Stamp Act (IS Act) 1899;
- Registration Act (IR Act) 1908;
- Chhattisgarh Prevention of undervaluation of Instruments Rules 1975; and
- Chhattisgarh Market Value Guideline Rules 2000.

The levy and collection of Stamp Duty and Registration Fee is administered by the Registration Department headed by the Inspector General of Registration cum Superintendent of Stamps (IGR) who is assisted by Deputy IGR, District Registrar cum Collector of Stamps (DR) and Sub Registrar (SR).

3.2 Analysis of budget preparation

The budget estimate is prepared as per the Chhattisgarh Budgetary Manual. The revenue receipts are obtained from the units and consolidated in the Department. After taking into account the number of registered cases and the revenue collected during the previous year, the proposal is sent to the Finance Department for approval. After scrutiny of revenue collection and increase in number of registered cases, the Finance Department approves the budget.

3.3 Trend of Revenue Receipts

Actual receipts from Registration Department during the years 2006-07 to 2010-11 alongwith the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	379.90	389.51	(+) 9.61	(+) 2.53	5045.70	7.72
2007-08	471.47	462.72	(-) 8.75	(-) 1.86	5618.10	8.24
2008-09	520.00	495.59	(-) 24.41	(-) 4.69	6593.72	7.52
2009-10	515.00	583.13	(+) 68.13	(+) 13.23	7123.25	8.19
2010-11	650.35	785.85	(+)135.50	(+)20.83	9005.14	8.73

The contribution of receipts from stamp duty and registration fee to the total tax revenue of the State during the last five years ranged between 7.52 to 8.73 per cent. The increase (+ 20.83 per cent) during the year 2010-11 was due to increase in number of registered documents and also enhancement in the market value of properties.

3.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 5.43 crore of which ₹ 2.86 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	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	2.86	0.26	0.25	2.87
2007-08	2.87	0.60	0.42	3.05
2008-09	3.05	1.02	0.39	3.68
2009-10	3.68	2.00	0.99	4.69
2010-11	4.69	3.46	2.72	5.43

We recommend that the Department may take immediate steps for realisation of arrears of revenue, which are showing an increasing trend.

During discussion, the Government intimated (September 2011) that efforts will be made for the recovery of arrears.

3.5 Cost of collection

The gross collection in respect of Stamp duty and Registration fee, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection of the preceding years are as indicated in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for expenditure on collection in the preceding year
Stamp duty and Registration fee- MH 0030	2008-09	495.59	11.69	2.36	2.09
	2009-10	583.13	13.97	2.40	2.77
	2010-11	785.85	17.75	2.26	2.47

3.6 Impact of audit

3.6.1 Position of Inspection Reports (IR): During the last five years, audit through its IR had pointed out underassessment of stamp duty, misclassification

of instruments etc with revenue implication of ₹ 15.57 crore in 1829 cases. Of these, the Department/Government had accepted audit observations in 1174 cases involving ₹ 9.19 crore and had since recovered ₹ 15.26 lakh. The details are shown in the following table:

(₹ in lakh)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	27	221	318.63	221	318.63	6	0.73
2006-07	14	132	182.33	131	182.33	3	0.32
2007-08	30	515	100.31	511	97.86	4	2.45
2008-09	20	635	663.00	13	38.00	7	1.76
2009-10	11	326	293.00	298	282.00	81	10.00
Total	102	1829	1557.27	1174	918.82	101	15.26

The above table indicates that during the last five years, only 1.6 per cent recovery has been made in the accepted cases. The Department may take steps to make recovery in the cases those accepted by it.

During discussion, the Government intimated that matter will be looked into and efforts will be made for early recovery.

3.6.2 Position of Audit Reports : In the Audit Reports 2005-06 to 2009-10, cases of underassessment, exemption from stamp duty, theft were indicated involving ₹ 10.63 crore.

The Department accepted observations of ₹ 1.34 crore of which ₹ 1.42 crore had been recovered till March 2011 as shown in the table below:

(₹ in crore)

Sl. No.	Year of the Audit Report	Total money value	Amount Accepted	Recovery made upto March 2011
1	2005-06	0.34	0.17	0.10
2	2006-07	8.69	0.03	1.23
3	2007-08	Nil	Nil	Nil
4	2008-09	1.60	1.14	0.09
5	2009-10	Nil	Nil	Nil
Total		10.63	1.34	1.42

The Department should take steps to recover balance amount as pointed in Audit Reports.

3.7 Internal audit

Internal Audit Wing (IAW) of an organisation is a vital component of the internal control mechanism and is generally defined as control of all controls. It enables the organisation to assure itself that the prescribed systems are functioning

reasonably well. The IAW attached to the office of the IGR have one Assistant Internal Audit Officer. The IAW is required to inspect the offices of the District Registrars and Sub Registrars once in a year and once in two years respectively. During the year 2010-11, the IAW had planned audit of 33 SR offices of which only 11 units were audited. The low percentage of the inspection of units indicates that the Department does not have proper planning for the inspection of units.

The Government may ensure that IAW conducts the number of inspection of units required and ensure time bound action by the registering authorities on the observations of the IAW so as to ensure collection of revenue as per rules and also to safeguard revenue and avoid recurrence of mistakes in future.

3.8 Results of audit

Test check of the records of 28 units relating to Registration Department revealed underassessment of stamp duty, misclassification of instruments etc. amounting to ₹ 6.29 crore in 542 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Inordinate delay in disposal of cases.	106	1.49
2.	Loss of revenue due to undervaluation, misclassification of instruments and underassessment of stamp duty	254	2.67
3.	Other irregularities	182	2.13
Total		542	6.29

During the year, the Department accepted underassessment of ₹ 4.20 crore in 486 cases. The Department recovered ₹ 11.47 lakh in cases pointed out by audit in earlier years.

A few illustrative cases involving ₹ 1.88 crore are mentioned in the succeeding paragraphs.

3.9 Audit observations

We scrutinised the records of various registration offices and found several cases of non-observance of the provisions of the Acts/ Rules/ Government notifications/ instructions leading to loss of stamp duty and registration fee. The irregularities/omissions mentioned in the succeeding paragraphs pertain to incorrect adoption of market value/value with reference to the Guidelines prescribed for valuation of immovable property and few cases relating to misclassification of Instruments. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of the registrars are pointed out by us each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system and strengthen the internal audit so that such omissions can be avoided.

3.10 Short levy of stamp duty and registration fee due to undervaluation

The Indian Stamp Act empowers a Sub Registrar (SR) to refer the documents to the collector for determination of market value of the property, if there are reasons to believe that the market value of the property has not been determined in accordance with guidelines approved by Central Valuation Committee under the Act.

During the test check of instruments, we noticed that in 67 documents registered between March 2007 and March 2010, the market value were neither correctly determined by concerned SR nor were sent to District Registrar for determination of correct value. As per the approved Guidelines the market value of the properties mentioned in these documents was ₹ 16.50 crore instead of ₹ 7.18 crore mentioned by the executants in the

deeds. This resulted in undervaluation of properties by ₹ 9.32 crore. The concerned SRs did not detect the mistake at the time of registering the documents resulting in short levy of Stamp duty ₹ 71.99 lakh and Registration fee ₹ 7.41 lakh. This led to undervaluation of properties and consequent short levy of stamp duty and registration fee as detailed in the following table:

(₹ in lakh)

No. of Documents	As per the Document		As per Guidelines and Provisions		Short valuation	Short levy of SD/RF
	Value	SD/RF	Value	SD/RF		
8	202.08	18.23/1.63	461.40	37.34/3.70	259.32	21.01/2.07

Nature of Omission: As per the Clause one of the Guidelines, the valuation of properties in Raipur for the year 2008-09 and 2009-10, for the agricultural (un-diverted) land below or up to 0.243 hectares shall be valued on slab basis and more than 0.243 hectares shall be valued as per hectare basis. In the office of SR, Raipur, we found a vendee executed eight documents. Each instrument was executed with two or more than two vendors each having land of area less than 0.243 hectares, in such a manner that the total area of the land mentioned in a instrument became more than 0.243 hectares. Each vendor had a separate *Rin pustika* and khasara for his piece of land. Thus, the value of each piece of land should have been valued as separate unit for the purpose of Stamp duty and Registration fee. We saw that the executants treated one document as one unit and assessed the value of land at the rates applicable to the land of area more than 0.243 hectares for the purpose of Stamp duty. This resulted in short levy of stamp duty of ₹ 21.01 lakh and registration fee of ₹ 2.07 lakh.

29	329.06	24.96/ 2.70	667.54	50.39/ 5.38	338.48	25.43/ 2.67	
<p>Nature of Omission: As per the Guidelines the value of the piece of plot/land located near the road is higher than the value of the plot/land located off the road. The rates are different for different areas. In the offices of 4 SRs¹, during our test check of registered instruments we observed that the SRs did not consider the documents like <i>patwari</i> report, map attached with these instruments for the purpose of stamp duty and registration fee at the time of execution of the deeds. We found that from the documents attached with the deeds that these properties were located near the main road. But SRs incorrectly valued these properties off the road and levied stamp duty and registration fee at normal rates. This resulted in short levy of stamp duty of ₹ 25.43 lakh and registration fee of ₹ 2.67 lakh.</p>							
30	187.20	14.75/1.55	521.49	40.30/4.22	334.29	25.55/2.67	
<p>Nature of Omission: In the offices of 7 SRs², we found that in 30 instruments SRs had levied the stamp duty on the considerations mentioned in the deeds instead of on the market value approved by Central Valuation Committee under the Act. This resulted in incorrect determination of the market value by ₹ 4.02 crore and consequently less realisation of Government revenue by ₹ 28.22 lakh in the shape of registration fee and stamp duty.</p>							
Total	67	718.34	57.94/5.87	1650.43	128.03/13.30	932.09	71.99/7.41

After this was pointed out by us the Government accepted the audit contention and stated (September 2011) that in eight cases recovery of ₹ 51,241 have been made and the remaining cases have been referred to Collector of stamps for determination of correct market value. Further Report on action taken has not been received (January 2012).

As per the Guidelines the value of the diverted land in rural areas near the main road shall be two and half times the value of the agriculture land located in the vicinity of that area.

3.10.1 We found in test check of instruments registered in office of the Sub Registrar, (SR) Raipur (September 2010), that in two documents land admeasuring 4.28 hectare was sold in rural area (Kachna) of which 4.22 hectare was

diverted land situated on the main road. As per the Guidelines the market rate of the land in that area was ₹ 85 lakh per hectare. The SR registered the documents on the consideration of ₹ 3.63 crore mentioned in the sale deed and levied stamp duty ₹ 28.47 lakh and registration fee ₹ 2.91 lakh. However, as per the document attached we noticed that the land was situated near the road, the market value of this property should have been worked out as ₹ 9.06³ crore and stamp duty of ₹ 70.88 lakh and registration fee of ₹ 7.25 lakh were leviable. Thus incorrect determination of market value resulted in short realisation of stamp duty of ₹ 42.41 lakh and registration fee of ₹ 4.34 lakh.

After this was pointed out the Government intimated in September 2011 that the cases were referred to District Registrar. Further Report on action taken has not been received (January 2012).

¹ Baikunthpur, Bharatpur, Raipur and Surajpur

² Baikunthpur, Bharatpur, Bilaspur, Dhamdha, Pendra Road, Raipur and Surajpur

³ ₹ 3.63 crore X 2.5 = ₹ 9.06 crore.

3.11 Misclassification of instruments

Conveyance deed includes instruments by which properties movable or immovable are transferred. An instrument is required to be classified on the basis of its recitals given in the document and not on the basis of its title.

We found in test check of the instruments registered in offices of SR Raipur, (September 2010) that three instruments, registered between April 2009 and March 2010 were classified as development agreements and Stamp duty of ₹ 10.98 lakh was levied. However, our scrutiny of

the recitals of these documents revealed that the vendors had received the entire consideration of ₹ 3.35 crore as the cost of land before executing the agreement and possession of land was also given to the vendees. It was specified in the agreement that the first party (Vendor) shall not demand any additional amount from the vendee. Further; if any additional amount would be received towards the land after sale, then income tax or any other tax were stated to be paid by vendor after the execution. The deeds were, thus, to be classified as conveyance deeds and stamp duty and registration fee of ₹ 59.17 lakh was leviable. The SR did not correctly classified the document at the time of registration of deed, resulting in short levy of SD and RF of ₹ 48.19 lakh.

After we pointed these cases out, the Government intimated (September 2011) that the cases have been referred to the District Registrar. A report on further action taken has not been received (January 2012).

3.12 Incorrect determination of stamp duty and registration fee

As per Article 48 (f-1) of Schedule 1 A of Indian Stamp Act, 1899, when power of attorney is given without consideration in favour of persons who are not his or her spouse, children, mother or father and authorising the attorney to sell or transfer the property, the same duty to be levied as a conveyance under Article 23 on the market value of the property.

We found in the test check of the power of attorneys registered in the office of the SR, Katghora (January 2009) that a power of attorney of a land admeasuring 3.589 hectare was given in favour of sister-in-law in April 2007. Of this 0.948 hectare was diverted land and 2.641 hectare was un-diverted land. The market value of the land in the area was ₹ 4.94 lakh per hectare. Thus, the

market value of the property was ₹ 24.73⁴ lakh on which stamp duty of ₹ 2.16 lakh and registration fee of ₹ 0.20 lakh was leviable. However, the SR levied the stamp duty ₹ 1.33 lakh and registration fee of ₹ 100 as conveyance deed. This resulted in short levy of Stamp duty and Registration fee amounting ₹ 1.03 lakh.

⁴ $2.641 \times 4,93,500 = 13,03,334$
 $0.948 \times 12,33,750 = 11,69,595$ (Rate is 2.5 times of Rs. 4,93,500)
 Total = 24,72,929

After we pointed these cases out, the Government intimated (September 2011) that the case was registered for hearing to Collector of Stamps and he ordered that the case has rightly been classified as power of attorney and stamp duty has accordingly been levied as correct. The reply is not relevant to our observation as our observation related to correct determination of stamp duty and registration fees on market value and not to the classification of deeds. Though the deed was treated as conveyance deed by the SR but stamp duty and registration fees on market value of ₹ 24.73 lakh amounted to ₹ 2.36 lakh instead of ₹ 1.33 lakh levied by the Department. This has resulted in incorrect levy of the stamp duty and registration fee due, to that extent.

3.13 Short levy of stamp duty

As per section 2 (12) of Indian Stamp Act, as soon as any document is executed, it becomes chargeable. According to section 35 of the Act, if any deed is presented for registration before Sub-Registrar (SR), he should make sure that the document is duly stamped in accordance with market value of the property as defined in section 2(11) of the Act. If not, he would impound it and may send it to the Collector of stamps to recover the less stamps under section 38(2).

We found in the test check of the instruments registered in SR Raipur that, a document was executed in March 2006. The essential documents such as *Khasra*, B-1 and map were issued in April 2006 i.e. after the date of execution and presented for registration in May 2006. The sale value of the property was mentioned as ₹9.40 lakh and was presented to the SR with duty of ₹ 500. However, the document was registered in March 2010 in accordance with market value of

2005-06 levying stamp duty of ₹ 2.36 lakh. Thus SR irregularly kept the document up to four years. Thus delay in registration of the deed resulted in delay in remittance of the Government revenue by four years which was indirectly a benefit to the executants.

The market value of the property in March 2010 was ₹ 1.49 crore at the rates applicable for the year 2009-10. Thus Government could have got additional revenue of ₹ 11.77 lakh in the shape of stamp duty and registration fee.

Similarly, in other two instruments we found that documents were executed in March 2008 and presented to SR for registration in June 2008. The essential documents such as *Khasra*, B-1 and map were issued after the date of execution. Besides, a few transactions relating to the amount required to be paid, were done in June 2008. Since the transactions were made in June 2008, these documents should have been registered as per market value of 2008-09 which was not done and instead the SR adopted market value of 2007-08. This irregularity resulted in loss of stamp duty and registration fee of ₹ 58,667.

After we pointed these cases out, the Government accepted the objection and intimated (September 2011) that show cause notice has been issued to the concerned SRs.

CHAPTER-IV: STATE EXCISE

4.1 Tax administration

Excise Department is one of the major revenue earning department of the state and the contribution of the Excise receipts to the total tax revenue of the state during the last five years were between 14 and 16.73 *per cent*. Receipts from excise comprise receipts derived from duty, fee or confiscation imposed or ordered under the provisions of Chhattisgarh Excise Act, 1915 and rules and notifications issued thereunder. It also includes revenue from manufacture, possession and sale of liquor, *Bhaang* and poppy heads. The Department maintains a set of liquor shops and gives annual licences to private contractors to sell country spirits, foreign liquor, *bhaang* and poppy from their shops. Licence for manufacture of liquor are granted and renewed every year by the Excise Commissioner on payment of prescribed fee subject to prior approval of the State Government. The department follows the undermentioned Acts and Rules:

- Chhattisgarh Excise Act, 1915;
- Chhattisgarh Entertainment Duty and Advertisement Tax Act, 1936;
- Chhattisgarh Distillery Rules, 1995; and
- Chhattisgarh Foreign liquor Rules, 1996.

The State Excise Department is headed by the Excise Commissioner. He is assisted by Additional Excise Commissioner, Deputy Commissioners, Assistant Commissioners, District Excise Officers and Assistant District Excise Officers.

4.2 Analysis of budget preparation

Budget is prepared as per Chhattisgarh Budgetary Manual. The Budget procedure provides that the estimates of receipts should show the amount expected to be realised within a year. The preparation of annual budget estimate of excise revenue is based on the revenue expected to be collected in a year in the shape of licence fee, duty, permit fee, bottling fee, application fee, labeling fee, allotment of shops for sale of liquor, licence fees etc. The budget estimate for the year 2010-11 was ₹ 1,390.00crore and revenue realised was ₹ 1,506.44 crore, an increase of 8.38 *per cent* over the budget estimate. The Government may prepare realistic budget so that the receipts may be realised as per budget estimates.

4.3 Trend of Revenue Receipts

Actual receipts from State Excise Department during the years 2006-07 to 2010-11 along with the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess(+)/ shortfall(-)	Percentage of variation	Total tax receipts of the state	Percentage of the actual receipts vis-à-vis total tax
2006-07	704.44	706.81	(+) 2.37	(+) 0.34	5045.70	14.00
2007-08	840.00	843.10	(+) 3.10	(+) 0.37	5618.10	15.00
2008-09	950.00	964.10	(+) 14.1	(+) 1.48	6593.72	14.62
2009-10	1158.00	1187.72	(+) 29.72	(+) 2.57	7123.25	16.67
2010-11	1390.00	1506.44	(+)116.44	(+)8.38	9005.14	16.73

It may be observed from the above table that the actual receipts during the period 2006-07 to 2010-11 exceeded the budget estimates, and during the year 2010-11 there was a huge increase in the receipts. The increase was due to increased collection of process fees and also due to collection of excise duty due to more sale of liquor. It clearly indicates that the Department had not taken into account all the inputs while preparing the budget and this resulted in variation in the budget figures and the actual receipts.

4.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 25.30 crore of which ₹ 23.07 crore were outstanding for more than five years. The following table depicts the position of arrear of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	23.07	0.01	0.29	22.79
2007-08	22.79	0.21	0.18	22.82
2008-09	22.82	0.49	0.05	23.26
2009-10	23.26	2.42	0.08	25.60
2010-11	25.60	0.37	0.67	25.30

The above table indicates that recovery of arrears was very low as compared to outstanding. It is recommended that the Government may consider taking appropriate measures by way of initiating certificate proceedings under the Act to recover the arrears.

4.5 Cost of collection

The gross collection in respect of State Excise receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection of preceding years is indicated in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of expenditure to gross collection of preceding year
State Excise 0039	2008-09	964.10	26.30	2.73	3.27
	2009-10	1187.72	35.35	2.98	3.66
	2010-11	1506.44	40.68	2.70	3.64

4.6 Impact of audit

4.6.1 Position of Inspection Reports (IR): During the last five years, audit through its IR had pointed out non-recovery of duty, short realisation of licence fees, non-levy of penalty, non/short levy of entertainment duty with revenue implication of ₹ 102.45 crore in 3355 cases. Of these, the Department/Government had accepted audit observations in 2027 cases involving ₹ 31.99 crore and had since recovered ₹ 0.10 crore. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2005-06	10	759	45.40	577	20.32	32	0.042
2006-07	3	194	3.81	145	0.76	Nil	Nil
2007-08	12	1143	18.74	912	0.54	55	0.038
2008-09	10	223	17.79	56	2.85	2	0.02
2009-10	16	1036	16.71	337	7.52	Nil	Nil
Total		3355	102.45	2027	31.99	89	0.10

The above table indicates that during the last five years only 0.31 per cent recovery has been made on the accepted cases which are negligible. The Government needs to look into the recovery of arrears of revenue.

After we pointed this out, the Government stated (September 2011) that efforts will be made for early recovery in the cases.

4.6.2 Position of Audit Reports : In the Audit Report 2004-05 to 2009-10 the cases of non-recovery of duty, short realisation of licence fees, non/short levy of entertainment duty were indicated involving ₹ 30.97 crore. The Department has accepted the observations of ₹ 9.42 crore of which ₹ 0.07 crore were recovered till March 2011 as shown in the table.

(₹ in crore)

Sl. No	Year of the Audit Report	Total money value	Amount accepted	Recovery made up to March 2011
1.	2004-05	10.25	0.11	0.04
2.	2005-06	4.09	0.08	Nil
3.	2006-07	Nil	Nil	Nil
4.	2007-08	14.95	8.68	Nil
5.	2008-09	1.20	0.07	0.03
6.	2009-10	0.48	0.48	Nil
	Total	30.97	9.42	0.07

It may be seen from the above table that 0.74 *per cent* recovery has been made by the Department in the cases accepted and those pointed out in Audit report which is almost negligible.

4.7 Internal Audit

The objective of an Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the prevention of mistakes and to play a corrective role by pointing out mistakes and ensuring remedies without loss of time. Though, the post of Joint Director, Finance and Assistant Internal Audit Officer has been sanctioned for the Internal Audit, but during the year no units were either planned or audited due to the vacancy of the post of Joint Director.

4.8 Results of audit

We conducted test check of the records of nine units of the State Excise Department during the year 2010-11. We found non-recovery of duty, non-levy of penalty, short realisation of licence fees, non/short levy of entertainment duty etc. amounting to ₹ 64.62 crore in 1332 cases. The observations broadly fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Non/short levy of excise duty	116	10.05
2.	Non-levy of penalty for failure to maintain minimum stock of spirit in warehouses.	143	9.81
3.	Non-levy/recovery of duty on excess wastage	987	12.13
4.	Other irregularities	86	32.63
	Total	1332	64.62

During the course of the year, the Department accepted underassessment, non/short levy of duty, licence fee etc of ₹ 22.02 crore in 1084 cases. The Department recovered ₹ 3.34 lakh in cases pointed out by audit in earlier years.

A few illustrative cases involving ₹ 2.47 crore are mentioned in the following paragraphs.

4.9 Audit observations

We scrutinised the assessment records of excise duty, fee and charges in the district excise offices (DEOs) and found several cases of non-observance of the provisions of the Acts/Rules/Annual Excise Policies (AEP) leading to loss/non/short levy and realisation of excise duty, fee, charges, fine and non-destruction of excise goods etc., and cases relating to application of incorrect rate of licence fee, wastage in transport and non-levy of penalty as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of the Assistant Commissioners/ District Excise Officers are pointed out by us each year, but not only do the irregularities persist but these remain undetected till an audit is conducted. There is need for the Department to improve the internal control system including strengthening of internal audit so as to avoid recurrence of such irregularities.

4.10 Non-levy of penalty due to non-maintenance of minimum stock of country liquor

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

We found in the test check of the records of four¹ District Excise Officers (DEO) (between July 2010 and November 2010) that on 1124 occasions, the licensee maintained stock of bottled country liquor of 802.91 crore proof litre (PL)² as against the prescribed minimum quantity of 804.07 crore PL. Thus, there was shortage of 1.16 crore PL for which penalty of ₹ 2.32 crore was to be levied on the licensees. Despite this the Department had neither issued any show cause notice in these cases nor levied any penalty against the licensee resulting in non levy of ₹ 2.32 crore.

After we pointed this out, the Government stated (September 2011) that in respect of Janjgir and Korla district, the Collector had passed an order for imposition of penalty while for Raipur district it was stated that the case was under consideration before the Collectors' court and in respect of Dhamtari district, it was stated that the licensee has appealed before the Commissioner, Excise against the orders of the Collector for imposition of penalty.

¹ Dhamtari, Janjgir-Champa, Korla & Raipur.

² Proof litre (PL) – PL is the standard measurement of alcohol as per the strength of the alcohol packed in bottles.

4.11 Wastage in transportation of bottled country liquor

Rule 10(A) (i) of Chhattisgarh Country Spirit Rules provides the maximum permissible limit of 0.1 per cent for wastage in transport of bottled country liquor if the manufacturing warehouse and the storage warehouse are located in the same district and 0.25 per cent if the manufacturing warehouse and the storage warehouse are located in different districts. Further as per Rule 10(A) (3), if wastage is more than the permissible limit, the prescribed duty at the rate of ₹ 48 per proof liter (PL) on that excess wastage shall be recovered from the licensee.

We found in the test check of the records of the District Excise Officer (DEO), Dhamtari (November 2010) that 15.00 lakh PL of country liquor was transported from manufacturing warehouse to storage warehouse during the period from April 2009 to March 2010 of which 14.82 lakh PL was acknowledged. Wastage of 14848.90 PL was allowed in excess against the permissible limit of 3751.31 PL. This resulted in excess allowance of wastage of 14848.90 PL of country liquor for which Excise duty amounting ₹ 7.12 lakh was

leviable, despite this, DEO had neither issued any show cause notice nor levied any penalty against the licensee.

After this was pointed out by us, the Government accepted the objection and intimated (September 2011) that the licensee has appealed before the Commissioner, Excise against the orders of the Collector for imposing penalty amounting ₹ 7.12 lakh.

4.12 Application of incorrect rate of licence fee

According to section 62(2 j) of Chhattisgarh Excise Act 1915 and notification issued there under, the Government of Chhattisgarh fixed the licence fee as under:

Criteria	Year		
	2008-09	2009-10	2010-11
Area where population is less than one lakh	4 lakh	6 lakh	6 lakh
Area where population is more than one lakh and less than three lakh.	6 lakh	8 lakh	8 lakh

We found in the test check of records of the District Excise Officer, (DEO) Ambikapur, for the period 4/2008 to 3/2010, that the DEO levied the licence fee for three years amounting ₹ 20.00 lakh from two licensees at the rate of ₹ four lakh for 2008-09 and ₹ six lakh for 2009-10 and 2010-11

considering the population of Ambikapur less than one lakh. But as per Notification dated 12/03/2003, State Government constituted the Municipal Corporation Ambikapur. Since the towns, whose population are more than one

lakh are only notified as Municipal Corporation, the licence fee amounting ₹28.00 lakh should have been levied. This resulted in a loss of ₹ eight lakh.

After this was pointed out by us, the Government intimated (September 2011) that as per the data available from the District planning and statistical officer, the population of Ambikapur is 95,823 and as such the licence fee deposited by the licensee is correct.

The reply is not correct because as per the Government notification dated 12.3.2003, Municipal Corporation Ambikapur was constituted in place of Municipal Council and as per the notification dated 28.2.03, the area whose population is above one lakh is only notified as Municipal Corporation. This indicates lack of coordination between the Government Departments.

CHAPTER V: LAND REVENUE

5.1 Introduction

All land, to whatever purpose applied and wherever situated, is liable to payment of revenue to the State Government, except such land as has been wholly exempted from such liability by special grant of or contract with the State Government is liable to payment of revenue to the state Government or under the provisions of any law or rule for the time being in force. Such revenue is called "Land Revenue"; and that term includes all moneys payable to the State Government for land, notwithstanding that such moneys may be described as premium, rent lease money, quit-rent or in any other manner, in any enactment, rule, contract or deed. Agriculture land is subject to land revenue at rates determined at the time of settlement. When agriculture land is diverted to residential/commercial purposes, diversion rent and premium are assessed by the Sub Divisional Officers (SDO). *Nazul* rent, premium and interest are levied on the *Nazul*/Government land allotted on permanent and temporary leases in the State. Land development tax, *Gramin Vikas* tax, Infrastructure development and Environment cess are levied and collected by the Department. *Panchayat* cess is also levied on land revenue in respect of land situated in *Panchayat* areas. Fines, penalties, process fee and interest are also levied under provisions of Chhattisgarh Land Revenue Code 1959, Revenue Book Circular (RBC) and executive instructions issued from time to time.

5.2 Organisational set up

The Revenue Department is headed by the Principal Secretary at the Government level. He is assisted by the Commissioner, Settlement and Land Record (CSLR) and four Divisional Commissioners (DC). The DCs exercise administrative and fiscal control over the districts included in the divisions. In each district, Collector administers the activities of the Department. It is entrusted upon the Collector of the district to place one or more Assistant Collectors or Joint Collectors or Deputy Collectors in charge of a sub-division of a District. The officers so placed in-charge of a sub-division are called SDOs. They have to exercise such powers of the Collectors as are directed by the State Government by notification. Superintendent/ Assistant Superintendent Land Record (SLR/ASLR) are posted in the Collectorate for maintenance of revenue records and settlement. The Sub-Divisional Magistrate (SDM)/ *Tahsildars*/ Additional *Tahsildars* are deployed in the *Tahsils* as representatives of the Revenue Department. There are four revenue divisions, each headed by a DC, 18 districts, each headed by a Collector and 149 *Tahsils* in the State.

5.3 Analysis of budget preparation

Budget is prepared as per Chhattisgarh Budgetary Manual. The budget procedures provide that the estimates of receipts should show the amount expected to be raised within the year. While estimating the revenue, the calculation should be based on the actual demand including any arrears due for the past years and probability of their realisation during the year. The Controlling Officer is required

to examine the budget proposals received from the concerned field offices by obtaining the information of receipts during the year for consolidation and submits to Finance Department for approval. The Finance Department after discussion with the Revenue Department approves the Budget.

5.4 Trend of revenue receipts

Actual receipts from Land Revenue during the years 2006-07 to 2010-11 along with the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)/ Shortfall(-)	Percentage of variation	Total tax receipts of the state	Percentage of actual receipt vis-à-vis total tax receipts
2006-07	73.86	60.86	(-) 13.00	(-) 17.60	5,045.70	1.20
2007-08	96.76	88.12	(-) 8.64	(-) 8.93	5,618.10	1.57
2008-09	100.00	359.50	(+) 259.5	(+) 259.5	6,593.72	5.45
2009-10	120.36	159.69	(+) 39.33	(+) 32.68	7,123.25	2.24
2010-11	170.00	247.37	(+) 77.37	(+) 45.51	9,005.14	2.75

(Source:- Finance Accounts 2010-11)

The land revenue receipt to the total tax revenue of the State during the last five years ranged between 1.20 and 5.45 per cent. It may be observed from the above table that while the actual receipts exceeded the budget estimates by 259.50 per cent, 32.68 per cent and 45.51 per cent in the years 2008-09, 2009-10 and 2010-11 respectively, but the same was less than the budget estimates by 18 per cent and nine per cent during 2006-07 and 2007-08 respectively. The reasons for huge variation were mainly due to excess realisation on land revenue and other receipts during the year 2008-09. Similarly, there was excess realisation of arrears on account of land revenue, *Adhosanrachana vikas cess*, *Paryavaran cess* and *Panchayat cess* during the year 2010-11. It was also noticed that during the year 2006-07, there was short realisation of revenue on account of *Adhosanrachana vikas cess*, *Paryavaran cess* and *Panchayat cess*.

5.5 Analysis of arrears of revenue

The arrears of revenue during the period from 2006-07 to 2010-11 as detailed below:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Collections during the year	Closing balance of arrears
2006-07	10.16	30.54	26.01	14.69
2007-08	14.69	35.80	40.97	9.52
2008-09	9.52	37.75	35.42	11.85
2009-10	11.85	56.06	30.54	37.37
2010-11	37.37	115.88	114.95	38.30

(Source: Office of the Commissioner, Land Record, Raipur)

The foregoing table indicates that the recovery was ranging between 45 and 81 *per cent*. Though the Department made substantial recovery of revenue, but ₹ 38.30 crore were still pending for recovery as on March 2011.

Impact of audit

5.6 Position of Inspection Report

During the last five years, Audit through its Local Audit Inspection Reports had pointed out non-recovery of processing fee, premium, penalty etc. with revenue implication of ₹ 122.68 crore in 10593 cases. Of these, the Department/ Government had accepted audit observations in 8,566 cases involving ₹ 99.13 crore but recovered only ₹ 0.12 crore. The details are shown in the following table:

(₹ in lakh)

Year	No. of units audited	Objections made		Objections accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2006-07	16	219	931.13	201	539.13	2	0.85
2007-08	24	2,721	2,570.00	2,700	2,516.00	1	0.36
2008-09	24	3,616	6,023.00	2,566	4,147.92	2	4.96
2009-10	20	4037	2,744.00	3,099	2,710.00	360	5.77
Total	84	10,593	12,268.13	8,566	9,913.05	365	11.94

Though the Department had accepted the revenue recovery of ₹ 99.13 crore pointed out by audit during the period of review but recovered less than one *per cent* (₹ 0.12 crore) only. This indicates that Government had not given any priority to recovery of the amount pointed out by audit and accepted by the Department by initiating effective steps.

The Government, may in the interest of revenue, consider instructing the Department for taking prompt and effective steps for affecting recoveries at least in those cases which have already been accepted by the Department.

5.7 Position of Audit Reports

In the Audit Reports 2007-08 to 2009-10, the cases of underassessment of cess, processing fees, premium and penalty involving ₹ 3.01 crore were indicated. The Department accepted observations of ₹ 0.65 crore and recovered ₹ 0.05 crore as of March 2011 as shown in the following table:

(₹ in crore)

Sl. No.	Year of the Audit Report	Total Money value	Amount Accepted	Recovery made up to March 2011
1.	2007-08	0.07	Nil	Nil
2.	2008-09	2.23	Nil	0.05
3.	2009-10	0.71	0.65	Nil
Total		3.01	0.65	0.05

It is clear from the above that the Department had not taken any concrete steps to recover the amount pointed by audit and accepted by the Department.

5.7.1 Results of Audit

We conducted a performance audit on “**Levy and collection of land revenue**” relating to assessment and collection of land revenue during the period April 2011 to June 2011. This revealed a number of deficiencies relating to non-assessment/underassessment of revenue and non-raising of demand etc. involving financial effect of ₹ 10.86 crore as mentioned in succeeding paragraphs.

5.8 Performance Audit on “Levy and Collection of land revenue”

We test checked the records relating to Assessment and Collection of Land Revenue during the period April 2011 to June 2011. It revealed a number of deficiencies relating to non-assessment/underassessment of revenue and non-raising of demand etc. involving financial effect of ₹ 10.86 crore. Some of the important audit findings are highlighted as follows:

We noticed that though 36 permanent lease deeds were finalised by the Collector Durg, these lease deeds were executed but not registered.

(Paragraph 5.8.7)

In four Collectors and six *Tahsils*, though the Department had recovered ₹ 24.76 crore on account of revenue recovery certificates (RRC), process expenses of ₹ 74.27 lakh though recoverable was not recovered by the concerned *Tahsildars*.

(Paragraph 5.8.8)

No proposal for revision of rent rates was sent by the concerned SDOs/Collectors of six districts to the Government, though a period of ten years had elapsed, except for Dhamtari where proposal was sent after a lapse of more than three years.

(Paragraph 5.8.9)

Panchayat cess of ₹ 1.30 crore was not assessed and levied on premium of ₹ 2.60 crore in 642 diversion cases between April 2006 and March 2011.

(Paragraph 5.8.10)

We noticed in ten offices that 1843 permanent leases due for renewal had not been renewed in absence of a monitoring system resulting in non-realisation of *nazul* rent of ₹ 62.79 lakh.

(Paragraph 5.8.11)

We noticed in the office of the Collector, Durg that out of 186 leases rent amounting to ₹ 3.73 lakh was not paid by the lessees since 1987 in eight cases. Further, in Korba that the *Nazul* officer had not raised demand of ₹ 90.66 lakh in 32 cases.

(Paragraph 5.8.11.1)

In Jagdalpur that on land admeasuring 19,286 sq.ft. handed over to Municipal Corporation Jagdalpur in March, 2003, premium and ground rent amounting to ₹ 94.09 lakh and ₹ 7.05 lakh respectively were not levied/recovered by the Collector.

(Paragraph 5.8.11.2)

We saw that the *Tahsildars* did not take action for eviction in 377 cases of encroachment of Government land during the period July 2004 to April 2010. Besides, penalty of ₹ 60.18 lakh was not levied for unauthorised possession of land.

(Paragraph 5.8.14)

We saw that the Collector Durg had in 122 cases assessed the cost of diverted land at pre-revised rates resulting in short assessment of diversion of rent of ₹7.85 lakh. Besides, demand of ₹ 89.14 lakh in respect of diversion rent and premium were not raised by the Sub-divisional Officers Janjgir and two *Tahsildars*.

(Paragraph 5.8.15 and 5.8.16)

There was non-recovery of premium and ground rent of ₹ 86.73 lakh from Municipal Corporation of Mahasamund and Surajpur and *Krishi Upaj Mandi* Champa. Besides interest of ₹ 1.60 crore for belated payments was also leviable.

(Paragraph 5.8.17)

Infrastructure development and environment cess were not levied on diversion rent, lease rent and other land revenues during the period from 2006-07 to 2010-11 resulting in non-realisation of Government revenue by ₹ 1.02 crore in six Collectorates and nine *Tahsils*.

(Paragraph 5.8.18)

Undue favour extended to school in allotment of land led to short levy of premium and ground rent amounting to ₹ 54.87 lakh.

(Paragraph 5.8.19)

5.8.1 Audit Scope and methodology

With a view to evaluate the efficiency and effectiveness of the system and procedures relating to assessment and collection of rent, premium, fees and penalties under the Land Revenue Code (LRC), records of Collectors, SDOs, *Tahsildars* and information collected from Divisional Commissioners and Commissioner (Land Revenue) and Settlement for the period 2006-07 to 2010-11 were examined by us. The units were selected on the basis of their high and low revenue collection based on random sampling. The performance audit was conducted between February and July 2011 covering offices of 10 out of 18 Collectors and 28 out of 149 *Tahsildars*. The audit methodology included scrutiny of demands raised by the selected units during the period 2006-07 to 2010-11.

5.8.2 Audit Criteria

The Department follows Acts, Circulars, Code etc. as mentioned below:-

- Chhattisgarh Land Revenue Code (CGLRC), 1959.
- Revenue Book Circular (RBC), Volume I to VI.
- Chhattisgarh *Adhosanrachana Vikas Evam Paryavaran* cess *Adhiniyam*, 2005
- Chhattisgarh *Panchayati Raj Adhiniyam*, 1993.
- Chhattisgarh *Lok Dhan (Shodhya Rashiyon ki Vasuli) Adhiniyam* 1987 and *Niyam* 1988.

5.8.3 Audit Objectives

The performance audit was conducted with a view to:

- Assess the efficiency and effectiveness of the system for assessment, levy and collection of land revenue, premium, ground rent, diversion rent, penalty and cess in conformity with the provisions of the Act/Rules.
- Ascertain whether an adequate and effective system existed for ensuring timely collection for rent/cess and these were remitted into the treasuries/banks.
- Ensure that an effective internal control system existed and was working efficiently to ensure timely assessment and realisation of rent and cess.

5.8.4 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Revenue Department for providing necessary information and records to audit. The scope and methodology of audit was discussed with the Principal Secretary of the Department in an entry conference held on 10 June 2011. The draft performance Audit Report was forwarded in August 2011 to the State Government.

The findings of the Performance Audit were discussed in an exit conference held in October, 2011. The Government side was represented by the Principal Secretary, Department of Revenue and Disaster Management, Government of Chhattisgarh. The contention of the audit was accepted almost in all cases and action to rectify the defects and recover the amounts pointed out by us was assured. The replies received during the Exit conference and at other point of time have been appropriately commented in the relevant paragraphs.

Audit findings

The performance audit revealed a number of system and compliance deficiencies which are discussed in the subsequent paragraphs.

System deficiencies

5.8.5 Internal Audit

The internal audit wing of a Department is a vital component of its internal control mechanism. However, there is no Internal Audit Wing (IAW) in the Department. In the absence of IAW, the Department failed to ensure effective controls on recoveries of arrears, to raise regular demands, to rectify misclassification of receipts, etc.

The Government may consider setting up of the IAW in the Department so as to ensure proper and timely realisation of revenue.

5.8.6 Non-preparation of Departmental Manual

The Land Revenue Department did not have any Departmental Manual detailing the functions and responsibilities of the staff of all categories in accordance with instruction issued by the Government/Department. In the absence of such Manuals, various checks and balances to be exercised by various functionaries of the Department for assessment levy and collection of taxes etc. could not be ensured and this could lead to manipulation of figures, embezzlement of Government money, incorrect deposit of Government receipts, lack of control on recoveries of arrears and failure to raise regular demand etc.

5.8.7 Non-registration of Lease deeds

Para 28 of RBC Vol. IV (1) provides for execution and registration of lease deed within reasonable time after allotment of the Nazul Land. Further, a lease deed for more than 12 months is a compulsorily registerable document under the registration Act, 1908. However, no time limit is prescribed in the RBC or CGLRC for execution of lease deed and registration thereof.

We noticed from the lease register maintained in *Nazul* office (Collector Durg), between April 2006 and September 2010 that 36 permanent lease deeds were executed. However, the lease deeds were not registered. This resulted in non-realisation of revenue to the extent of ₹ 20.50 lakh in the shape of stamp duty and registration fee.

After being pointed out by us the *Nazul* Officer replied that letters have been issued to the lessees for

executing the lease deed registration.

The Government may consider framing a provision in the Act for compulsory execution of lease deeds before operation of the leases may also be made in the relevant Rules/Act.

5.8.8 Non-realisation of process expenses due to lack of monitoring mechanism

Chhattisgarh Lokdhan (Shodhya Rashian ki Vasuli) Adhinyam, 1987 and CGLRC and Rules made thereunder, process expense at the rate of three per cent of principal amount is leviable.

Our Scrutiny of Revenue Recovery case registers of of four¹ Collectors and six² *Tahsils* (between 2005-06 and 2010-11) revealed that ₹24.76 crore was recovered against the RRC of Banks and other

department on which process expenses ₹74.27 lakh though recoverable was not recovered by the concerned *Tahsildars*. The Department had not monitored the recovery of process expenses; this resulted in non-realisation of process expenses of ₹74.27 lakh.

¹ Ambikapur, Jagdalpur, Janjgir, Mahasamund

² Balod (Durg), Dhamtari, Gurur (Durg), Kharsiya (Raigarh), Patan (Durg), Raigarh

In order to monitor the correctness and timely recovery of process expenses, it is appropriate that the Collector receives monthly statement from the *Tahsildars* containing amount due for collection and that which is actually collected as process expenses. **It is recommended that the Government may consider prescribing a monthly return for monitoring timely realisation of process expenses.**

5.8.9 Non-revision of diversion rates

According to section 97 of CGLRC and provision of Revenue Book Circular, the Collector shall, with the approval of the State Government, fix in accordance with the provisions of Section 98, the standard rate of assessment per one hundred square feet of land in the case of non-agricultural land and per acre of land in the case of agricultural land and such standard rates shall be published in such manner as may be prescribed. The rates are called the diversion rates. These are published and remain in force for ten years.

We observed from the diversion records of SDOs that the rates of diversion rent in 862 cases were due for revision between 2004-05 and 2007-08, but were not taken up by the SDOs for revision as detailed below:

Sl. No.	Name of the District	Number of cases	Date of old rates	Due date of new rates	Proposal sent or not sent	Approved proposal received or not
1.	Bilaspur	493	03.07.98	03.10.08	Not sent	N.A.
2.	Dhamtari	174	05.01.94	05.04.04	20.02.08	Not received
3.	Mahasamund	111	20.01.98	20.01.08	Not sent	N.A.
4.	Raigarh	1	09.09.98	09.09.08	-do-	-do-
5.	Raipur	1	03.07.98	03.07.08	-do-	-do-
6.	Saraipali (Mahasamund)	82	20.01.98	20.01.08	-do-	-do-
	Total	862				

It is clear from the above table that though a period of ten years had elapsed no proposal for revision was sent by the concerned SDOs/Collectors to the Government except for Dhamtari where proposal was sent after a lapse of more than three years. We further noticed that this aspect was not watched at any level. Thus, lack of monitoring resulted in delay in revision of diversion rates by State Government resulting in loss of revenue.

After this was pointed out by us, the SDOs replied that the proposal for revision of the diversion rates would be sent to the Government for approval.

The Government may consider framing a provision in the relevant Rules/Act, for automatic revision of rates after a prescribed period and frame norms/defined criteria on which revision of the rates should be done.

Compliance deficiencies

5.8.10 Non Levy of *Panchayat Cess* on premium in *Gram Panchayat* area

As per section 58(2) of CGLRC 1959, the term "Land Revenue" includes all moneys payable to the State Government for land in the form of premium, rent, lease money, quit-rent etc. Further, Section-74 of M.P. *Panchyat Raj Adhiniyam, 1993* provides for levy of *Panchyat Upkar* at specified rates in each revenue year in *Gram Panchyat* area. Thus, *Panchyat Upkar* is leviable on diversion rent as well as on premium collected in *Gram Panchyat* area because premium is also land revenue as per section 58(2) of CGLRC.

We observed from the diversion records (April 2006 to March 2011) of 11³ SDOs that *Panchayat Cess* of ₹ 1.30 crore was not assessed and levied on premium of ₹ 2.60 crore in 642 diversion cases of *Gram Panchayat* areas, decided between April 2006 and March 2011. Despite annual inspections conducted by the Collectorate office, the non-assessment cases could not be detected by the SDOs. This resulted in non-levy of *Panchayat cess* of ₹ 1.30 crore.

After being pointed out by us the SDO Janjgir and Champa

(Janjgir) replied that as per Section 58A of LRC, premium on this land are exempted from payment of Land Revenue.

The reply of SDO was not correct because, as per section 58 (A), exemption will be given to those lands which are uneconomic holdings and are used exclusively for the purpose of agriculture for more than five years. In this case, lands were for non-agricultural purpose as such *Panchayat cess* was leviable. The SDO, Durg stated that as per section 74 of the *Panchayat Adhiniyam 1993*, there is no provision for levying *Panchayat cess* on premium. The reply of SDO, Durg is incorrect because premium and diversion rent are land revenue. However, remaining SDOs replied that action would be taken as per rule.

³ Ambikapur, Champa (Janjgir), Durg, Janjgir, Katghora (Korba), Korba, Raipur, Rajpur (Ambikapur), Shakti (Janjgir), Sitapur, Surajpur (Ambikapur)

5.8.11 Non-renewal of Permanent leases of *Nazul* land

As per para-35 volume IV(1) of RBC, *Nazul* officers are responsible for renewal of *Nazul* leases and if lessee does not submit his application for renewal for the lease deed, the lease shall be treated as cancelled (Para 28 of the RBC).

According to RBC IV(1) of CGLRC, rent payable for a *Nazul* plot in an urban area held on lease shall be deemed to be due for revision when the lease becomes due for renewal.

We observed from the lease register of 10⁴ *Nazul* offices that 1,843 permanent leases granted for 30 years were due for renewal during the period 1960-61 to 2010-11. However, these cases were not taken up by the *Nazul* Officer for renewal. Some of the cases are furnished below:-

- C.G. Exhibitors (Satyam Talkies) Bilaspur lease was due for renewal since 30th June 1960.
- Badrisingh (Chandrika lodge) Bilaspur lease was due for renewal since 31st March 1990.

We observed that though the *Nazul*

Officers were maintaining the lease registers they had not kept close watch/monitored the cases due for renewal. No notice for cancellation of the lease was also found on record. Thus non-renewal of the leases resulted in non-realisation of *nazul* rent amounting to ₹ 62.79 lakh in these cases.

After this was being pointed out by us, the *Nazul* Officers stated that action for renewal of lease would be taken after scrutiny of cases.

5.8.11.1 Non-realisation of lease rent of *Nazul* lands

As per Para 39 of serial no. 1 C.G. Revenue Book Circular part IV, a demand and recovery register of permanent lease holder in form "O" will be prepared by the city surveyor. The process for realisation of *Nazul* rent shall be started by the *Tahsildar* after completion of each year. As per the provision of para 38 of RBC (IV), the *Nazul* officers are required to send a monthly statement in respect of lease rent to concerned *Tahsildar* for onward transmission to the Collectors.

We noticed from demand and recovery register of *Nazul* land, in the office of the Collector, Durg (during April 2006 to March 2011) that 186 lease cases were proposed for sanctioned since 1982. Out of these, 133 cases were pending for finalisation with the Secretary, Government of Madhya Pradesh

from 1982 to 2001. In 52 cases, lease was sanctioned but lease rent was recovered only in nine cases. Out of the remaining 43 cases, only eight cases were

⁴ Ambikapur, Bilaspur, Bhatapara(Raipur), Champa(Janjgir), Durg, Jagdalpur, Mahasamund, Raigarh, Sitapur and Surajpur (Ambikapur)

scrutinised in which rent amounting to ₹ 3.73 lakh was found not recovered since 1987. One case was stated to be pending in the Civil Court of Durg. Further, it was noticed in Korba that the *Nazul* Officer had not raised demand of lease rent amounting to ₹ 90.66 lakh in 32 cases.

Though the returns were being recorded by the office of the Collector but no instructions for recovery of the arrears were found to have been issued. Besides, reasons for not getting the cases back from the Government of Madhya Pradesh after the bifurcation of erstwhile state of Madhya Pradesh were not found on record produced to audit. The above facts indicate that though the system exists for monitoring the recovery of the revenue, but this was not followed.

After the case was pointed out by us, the *Nazul* Officers stated (June 2011) that action for realisation of lease rent would be taken.

5.8.11.2 Non-levy of premium and ground rent on *Nazul* land from urban local bodies

As per 10th entry of table concessions under Para 26 of RBC part (iv)(i), *Nazul* land can be allotted to Municipal Corporation on payment of 50 per cent of premium on market value of land and land revenue at the rate of five per cent for residential purpose and 7.5 per cent of such premium for commercial purpose. Rent is recoverable every year on or before commencement of financial year.

We found from the *Nazul* records of office of Collector Jagdalpur that land admeasuring 19,286 sq. ft. was handed over to Municipal Corporation Jagdalpur in March, 2003. Out of this, land measuring 13,151 sq. ft. was meant for commercial purpose. Despite this, premium and ground rent amounting to ₹ 94.09 lakh and ₹ 7.05 lakh respectively were not levied and collected.

After being pointed out by us, the *Nazul* Officer Jagdalpur accepted the audit observation and issued instructions to the Commissioner, Nagar Nigam, Jagdalpur to deposit the amount of ₹ 1.01 crore towards utilization of land for commercial purpose.

5.8.12 Incorrect deposit of Government receipts

As per provisions of CGLRC, 1959 and RBC, all the receipts of Land Revenue as Land Revenue tax and other miscellaneous receipts (premium, ground Rent and penalty/ fines etc.) should be deposited under MH 0029 Land Revenue.

We observed in the revenue branch⁵, Collector Jagdalpur and from the records made available in *Tahsil* Office, Jagdalpur that ₹ 16.53 lakh were realised on account of premium, diversion rent and cess by the concerned *Tahsil* Office from September 2003 to April 2011 but were not deposited

⁵ From the diversion cases Register received from *Tahsil* Office and Jagdalpur

in the Consolidated fund of the state and *Tahsil* office incorrectly remitted it into *Panchayati Nidhi*. Keeping the money outside the Government account was in contravention of the Financial Rules and resulted in understatement of Government revenue to that extent.

After these cases were pointed out by us, the *Nazul* Officer, and *Tahsildar* (Jagdalpur) stated that the matter would be examined and communicated to audit.

5.8.13 Short deposit of diversion rent by a land holder

According to Chhattisgarh RBC Vol. I Part II para no. 7 and 14, every *Tahsildar* should prepare and forward a monthly *Tauzy* (recovery statement) in form A-5 and C-3 to office of the Collector for watching the recoveries.

Our test check of the records of the Collector (Diversion), Raipur revealed that demand notice of ₹ 2.22 lakh was raised in a diversion case in the month April 2010 against which the land owner deposited ₹ 21,819 only vide Challan no. 611 dated 22 April 2010 and on the basis of the copy

of the Challan submitted by the land owner, the SDO issued diversion certificate in favour of the party in April 2010. Thus, issue of diversion certificate without verifying the realisation of the diversion rent due led to short realisation of the diversion rent amounting to ₹ 2.00 lakh. The above short realisation of the rent could have been avoided, had the SDO verified the actual amount paid by the land owner from the demand notice prior to issue of the certificate.

After being pointed out by us, the Department while accepting the audit observation asked the land owner to deposit the differential amount of ₹ 2.00 lakh. Further it was intimated in September 2011 that the money was deposited by the land owner in September 2011. SDO, Raipur, stated that this happened due to the mistake in checking.

5.8.14 Non-levy of penalty/ fine on unauthorised possession of land

Section 248 of CGLRC provides that any person who unauthorisedly remains in possession of any Government land may be summarily evicted by order of the *Tahsildar*, such person shall also be liable, at the discretion of the *Tahsildar*, to pay the rent of land at the rate double the prescribed rate and penalty for the period of unauthorised possession of land at prescribed rates (₹ 20 per day).

We observed that in three⁶ *Tahsils*, 377 cases of encroachment of Government land during the period July 2004 to April 2010 were brought to the notice of the respective *Tahsildars*. Though these encroachments were in the knowledge of the *Tahsildars*, but no action was taken by the respective

⁶ Champa(Janjgir), Janjgir and Saraipali (Mahasamund)

Tahsildars for eviction from the Government land, as required under section 248 of CGLRC. Apart from that, penalty of ₹ 60.18 lakh was not levied for unauthorised possession of land.

After this was pointed out by us the *Tahsildars* accepted the audit observation and replied that action would be taken as per rule.

5.8.15 Short assessment of diversion rent

According to the section 59(2) of the CGLRC, where the land assessed for one purpose is diverted for any other purpose, the land revenue payable on such land shall be revised and reassessed in accordance with the purpose for which it has been diverted from the date of such diversions at the prevailing rates fixed/ prescribed by the Government from time to time as per available in Gazette .Government of Chhattisgarh vide Gazette notification dated 10 March 2006 revised the rates for diversion.

Our test check of records of Collector, Durg for the period April 2006 to March 2011 revealed that in 122 cases (2006-07), land measuring 1.98 hectare was diverted and the cost of the diverted land was assessed at ₹ 0.40 lakh on the basis of the pre-revised rates. Since the Chhattisgarh Government had already revised the rates vide Gazette Notification dated 10 March 2006, the diversion cost of the land should have been calculated as ₹ 1.96 lakh instead of ₹ 0.40 lakh. Thus, failure on the part of the SDO to apply the revised diversion rate, led to

short assessment of ₹7.85 lakh for five years (2006-11) against the diversion rent.

After this was pointed out by us, the SDO replied that the notification for revised rates was received from the Department on 01.10.2007. Thus, delay in circulation of gazette notification by Department and non-obtaining of revised orders resulted in short assessment of diversion rent.

5.8.16 Non- raising of demand of diversion rent, premium and fines

As per section 58 and 59 of CGLRC and para 14 of RBC, when land is diverted for use of any other purpose, the revenue officer would propose landholder-wise *khatauni* in form B-1 containing therein, the details of the diversion cases assessed during the year and forward it to the *Tahsildar* for updating his records and recovery of diversion rent and premium.

Our test check of records of Diversion section of Collector, Janjgir and two⁷ *Tahsils* revealed that demand of ₹ 89.14 lakh in respect of diversion rent and premium were not raised by the concerning Sub-divisional Officers. The details are given in

⁷ Bilaspur, Mungeli(Bilaspur)

the following table:

(₹ in lakh)

Sl. No.	Name of Unit	Period of demand not raised	No. of items involved	Amount involved
1.	Tahsildar Mungeli	2008-09 to 2010-11	238	4.23
2.	Collector Janjgir	2010-2011	536	66.96
3.	Tahsildar Bilaspur	2009-10 to 2010-11	429	17.95
Total			1203	89.14

We noticed that the Collectors received statement containing the number of diversion cases from *Tahsildars* and a statement indicating total demands raised through the SDO, however these were not reconciled by the Collector. Thus indicating lack of monitoring system in raising the demand in diversion cases was not adhered to.

After we pointed out, SDOs/*Tahsildar* stated that action would be taken after verification of cases.

5.8.17 Non recovery of premium and ground rent and interest

According to the provisions of RBC (Vol. IV(I)) and instructions issued (December 1991) by the Government, the anticipated premium and ground rent on *Nazul* lands allotted to lessees is required to be paid within stipulated period, failing which interest at the rates ranging from 12 to 18 per cent per annum is leviable for belated payments.

Our test check of records of *Nazul* office, Mahasamund and two⁸ *Tahsils* revealed that three local bodies were allotted *Nazul* land between 1987-88 to 1999-2000 on fixed premium of ₹ 63.48 lakh and annual ground rent of ₹ 57.89 lakh (arrear). Out of this, premium of only ₹ 15.00 lakh was realised whereas ₹ 19.64 lakh

ground rent was recovered. As such, premium and ground rent amounting to ₹ 86.73 lakh remained unpaid. In addition, interest at the rate of 12 to 18 per cent per annum was also to be levied on the unpaid amount, which worked out to ₹ 1.60 crore as per the details shown in the following table:

⁸ Champa (Janjgir), Surajpur (Ambikapur)

(₹ in lakh)

Sl. No.	Name of office	Details of local bodies to which land was transferred	Recoverable amount	Recovered amount	Outstanding amount	
1	Collectorate Mahasamund	Municipal Corpn. Of Mahasamund (Shops) 23140 Sqft. Land Premium ₹ 46.17 Rent ₹ 3.46 P.A. From 24-06-2000	Premium	46.17	15.00	31.17
			Rent	34.63	Nil	34.63
			Interest	117.17	Nil	117.17
			Total	197.97	15.00	182.97
2	Tahsil Champa	Krishi Upaj Mandi Champa 17.08 Acre Premium ₹ 3.46. Rent ₹ 0.10 P.A. From 1987-88	Premium	3.46	Nil	3.46
			Rent	2.49	Nil	2.49
			Interest	14.62	Nil.	14.62
			Total	20.57	Nil	20.57
3	Tahsil Surajpur (Ambikapur)	Municipal Corpn. Surajpur, Bus stand 3.95 acre Premium ₹ 13.85 Rent ₹ 2.08 P.A. From 23.5.2000	Premium	13.85	Nil	13.85
			Rent	20.77	19.64	1.13
			Interest	27.76	Nil	27.76
			Total	62.38	19.64	42.74
Grand Total			280.92	34.64	246.28	

Thus, it would be seen from above that the amounts are outstanding against the local bodies for a pretty long time and no measures were instituted by the Department for their recovery. This resulted in non-recovery of the revenue amounting to ₹ 2.46 crore.

After we pointed this out, the *Nazul* Officer, Mahasamund stated that the action for recovery would be taken while *Tahsildars* stated that proceedings of recovery of premium and ground rent is in progress and regarding interest, the action would be taken as per the rules.

5.8.18 Non- levy of *AdhoSanrachana Vikas* and *Paryavaran* cess

As per schedule II of C.G. *Adhosanrachana Vikas* cess and *Paryavaran* Cess Adhiniyam-2005, the *Adhosanrachana Vikas* cess and *Paryavaran* cess is to be levied and collected at the rate of five per cent each on land on which the land revenue or land rent is to be collected. According to instructions issued thereon (December 2005) Collector shall be responsible for collection of the above cess.

Our test check of records of six⁹ Collectorates and nine¹⁰ *Tahsils* revealed that infrastructure development and environment cess were neither levied nor collected on diversion rent, lease rent and other land revenues during the period from 2006-07 to 2010-11 by the respective SDOs/*Tahsildars* in total

⁹ Ambikapur, Janjgir, Jagdalpur, Korba, Raigarh, Raipur

¹⁰ Champa(Janjgir), Gurur(Durg), Janjgir, Katghora(Korba), Kharsiya(Raigarh), Mngeli(Bilaspur), Sarangarh(Raigarh), Saraipali(Mahasamund), Sakti(Janjgir)

disregard to the provisions of notification and instructions issued by the Government of Chhattisgarh. This led to non-levy of the *Adhosanrachna Vikas* and *Paryavaran* Cess amounting to ₹ 1.02 crore.

After we pointed this out, the *Nazul* Officer replied that action would be taken after verification.

5.8.18.1 Short realisation of *Adhosanrachana Vikas & Paryavaran* Cess

Our test check of diversion records of *Tahsildar*, Raipur revealed that Diversion rent amounting to ₹ 3.74 crore was realised during the period 2006-07 to 2010-11 on which *Adhosanrachana Vikas* and *Paryavaran* cess at the rate of five *per cent* each amounting to ₹ 37.37 lakh was leviable. As against this, the *Tahsildar* collected only ₹ 13.09 lakh resulting in short realisation of cess amounting to ₹ 24.28 lakh.

On being pointed out, the *Tahsildar*, Raipur accepted the audit observation and stated that action would be taken for realisation of balance cess.

5.8.19 Extension of undue favour to educational institution

According to the provisions of RBC, part IV, Para 26 as amended in January 1992, the premium at the rate of 50 *per cent* of the cost of land allotted to be worked out as per rates mentioned in the prevailing guideline of properties or as per revised minimum Government rates whichever is more in respect of land allotted to educational institutions. Besides, the land rent will be levied annually at the rate of two *per cent* of premium so fixed.

Our test check of the records of the Collector, Durg (*Nazul*) for the period April 2006 to March 2011 revealed that land admeasuring 87,120 sq. ft was allotted to K.D. Public school in September 2008 and the value of the land was ₹1.04 crore. As per the RBC rules, premium amounting to ₹ 52.26 lakh at the rate of 50 *per cent* of the cost of the land and ground rent amounting to ₹ 10.45 lakh at

the rate of two *per cent* of the premium were leviable. Against this, the Collector levied and collected premium amounting to ₹ 5.23 lakh and ground rent of ₹ 2.61 lakh. The levy of the premium and ground rent at a rate lower than the prescribed rate by the Collector resulted in short levy of premium and ground rent amounting to ₹ 47.03 lakh and ₹ 7.84 lakh, respectively.

After this being pointed out, the *Nazul* Officer replied that the rate of premium and ground rent was fixed as per the order of the Government. However, our scrutiny revealed that the land was allotted to three other schools and the Collector had levied premium and ground rent at the prescribed rates. The reason for not levying premium and ground rent at the prescribed rate in one only case of was not furnished. The favour extended to a school in allotment of land led to short levy of premium and ground rent amounting to ₹ 54.87 lakh.

The matter was referred to the Government in July 2011 their reply has not been received (October 2011).

5.8.20 Conclusion

We noticed that the system for levy and collection of land revenue in the state was beset with deficiencies. There was substantial loss of land revenue due to absence of adequate monitoring mechanism in the Collectorates and deficiencies in the implementation of RBC and CGLRC. Huge amount of revenue remained unrealised due to lack of any time limit prescribed in the Act/ Rules for initiation of recovery proceedings, execution of lease deeds, assessment of premium and rent after issue of sanctions. There was short and non-recovery of premium, rent, cess, interest and penalty, non-renewal of lease, etc. Revenue was not deposited under proper head of account and the maintenance of *tauzis* received scant attention in the Collectorates and the *Tahsils*. A separate IAW was not established in the Department.

5.8.21 Summary of recommendations

The Government may consider implementing the following recommendations:

- strengthen the established IAW and prescribe a time frame for taking remedial measures on its observations;
- consider issuing necessary orders for depositing land revenue under proper head of account;
- issue instructions for levy of *Panchayat Upkar* on premium collected in the *Gram Panchayat* area;
- consider insertion of time limit in the Act/Rules for initiation of recovery proceedings, execution of lease deed; and fix responsibilities for failure in timely execution of sanctions;
- issue necessary instruction for realisation of the arrears in a time bound manner;
- prescribed a mechanism for correlating the cases of assessment of diversion rent with the records of demand and collection submitted by *Tahsildar* to the Collector;
- issue necessary instructions to the Collector and *Tahsildar* to ensure compliance to the provision relating to proper realisation and timely deposit of revenue into the Government accounts;
- issue instructions for levy of *Adhosanrachna Vikas* and *Paryavaran* cess on all type of land on which the land revenue or rent is to be collected.

CHAPTER-VI: TAXES ON VEHICLES

6.1 Tax administration

Transport Department is one of the major revenue collecting Departments of the State. "Motor vehicle taxes" are levied and collected in the State under the provisions of the *Chhattisgarh Motoryan Karadhan Adhiniyam, 1991(Act)* as amended from time to time and rules made thereunder. Besides trade tax, licence fees, other fees such as registration fees, fitness fees and permit fees etc. are levied under the provisions of the Motor Vehicles Act, 1988 and rules made thereunder by the Central and the State Governments. In case of non-payment of tax in time, penalty and interest at the prescribed rates are also leviable.

Motor vehicle taxes in respect of non-transport vehicles are realised in lumpsum as lifetime tax, whereas tax and additional tax from transport vehicles are realised quarterly/monthly at the rates specified in the Act.

6.2 Analysis of budget preparation

Budget is prepared as per Chhattisgarh Budgetary Manual. The Budget procedure provides that the estimates of receipts should show the amount expected to be realised within a year. The preparation of annual budget estimate of Motor Vehicle Tax is based on the taxes, fees expected to be collected/received in a year in the shape of registration of vehicles, levy of taxes, penalties for delay in payment of MVT tax, fitness fees of vehicles etc. While estimating the revenue receipts, the calculation including arrears due for the past years and probability of their realisation during the year should be considered. In the Department the Transport Commissioner calls the probable receipts of the year from all the units and consolidates it. After scrutiny the budget proposal is submitted to the Finance Department for approval and the budget is approved by the Finance Department.

6.3 Trend of Revenue Receipts

Actual receipts from Transport Department during the years 2006-07 to 2010-11 along with the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actual receipt	Variations shortfall (-)/ surplus (+)	Percentage of variation (Col. 2 to 3)	Total tax receipts of the state	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	250.00	253.05	(+) 3.05	(+) 1.22	5045.70	5.01
2007-08	297.00	276.94	(-) 20.06	(-) 6.75	5618.10	4.93
2008-09	315.50	313.78	(-) 1.72	(-) 0.55	6593.72	4.76
2009-10	351.47	351.88	(+) 0.41	(+) 0.12	7123.25	4.94
2010-11	410.00	427.52	(+)17.52	(+) 4.27	9005.14	4.75

We observed that though the revenue receipt of the Department exceeded the budget estimates by 1.22, 0.12 and 4.27 *per cent* during the year 2006-07, 2009-10

and 2010-11 respectively but there was shortfall in receipt in remaining year and the shortfall ranged between 6.75 and 0.55 *per cent*. Similarly the percentage of actual receipts of the Department to the total tax receipt of the State was ranged between 4.75 to 5.01 *per cent*. As regards 2010-11, the increase in Revenue receipts was due to enhancement in the rate of lifetime tax and also increase in number of registration of new vehicles.

6.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 14.65 crore of which ₹ 3.47 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	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	3.47	253.73	253.05	4.15
2007-08	4.15	276.77	277.00	3.92
2008-09	3.92	313.89	313.80	4.01
2009-10	4.01	356.41	351.85	8.57
2010-11	8.57	432.82	426.74	14.65

During the exit conference, the Government in reply to Accountant General's query on the recovery of the arrears of revenue and recovery of the amount in accepted cases stated that steps have already been initiated in this regard and the position will be intimated to audit after few months.

The Government may issue necessary instructions for realisation of the arrears in a time bound manner.

6.5 Cost of collection

The gross collection in respect of Motor Vehicle Tax, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2008-09, 2009-10 and 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection of the preceding years is as indicated in the following table:

(₹ in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for expenditure on collection in the preceding year
Taxes on vehicles	2008-09	313.78	13.12	4.18	2.58
	2009-10	351.00	10.00	2.85	2.93
	2010-11	427.52	7.93	1.85	3.07

6.6 Impact of audit

6.6.1 Position of IRs: During the last five years, audit through its Inspection Reports had pointed out non-realisation of vehicle tax and penalty, non-levy of vehicle tax and loss of revenue amounting to ₹ 39.01 crore in 4656 cases. Of these, the Department/Government had accepted audit observations in 3005 cases involving ₹ 18.27 crore. The details are shown in the following table:

(₹ in crore)

Year of Inspection Report	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	6	852	2.99	852	2.99	142	0.37
2006-07	2	15	3.10	12	2.89	Nil	Nil
2007-08	7	1686	14.18	1051	7.61	Nil	Nil
2008-09	8	1758	11.89	746	3.89	Nil	Nil
2009-10	11	345	6.85	344	0.89	49	0.04
Total		4656	39.01	3005	18.27	191	0.41

The above table indicates that during the last five years only 2.24 per cent of recovery was made by the Department against the accepted cases which is almost negligible. We recommend that the Government should intensify its measures to ensure expeditious recovery of revenue in respect of the accepted cases.

After we pointed this out, (September 2011), the Government assured that the matter will be examined and efforts will be made for early recovery.

6.6.2 Position of Audit Reports: In the Audit Report 2005-06 to 2009-10, the cases of non/short levy of tax, penalty were indicated involving ₹ 19.51 crore. The Department accepted observations of ₹ 10.87 crore of which ₹ 0.67 crore had been recovered till March 2011 as shown in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Amount accepted	Recovery made up to March 2011
2005-06	2.11	Nil	Nil
2006-07	1.27	1.27	0.30
2007-08	6.69	3.58	Nil
2008-09	3.48	0.17	0.37
2009-10	5.96	5.85	Nil
Total	19.51	10.87	0.67

The above table indicates that 6.16 per cent recovery has been made on the accepted cases pointed out in Audit Reports.

We recommend that the Government may consider instructing the Department for taking steps to recover at least that amount which has already been accepted by Department.

6.7 Internal Audit

Internal audit enables the organisation to assure itself of the degree of compliance with prescribed system. During the year, 16 units were planned for audit by the Department of which only eight units have been inspected.

The Government may ensure that IAW conducts the inspection of units planned and ensure time bound action on the observations of the IAW so as to ensure collection of revenue as per rules and also to safeguard revenue and avoid recurrence of mistakes in future.

6.8 Results of audit

Test check of the records of the three Transport Department conducted during the year 2010-11 indicated non-realisation of vehicle tax and penalty, non-levy of vehicle tax and loss of revenue amounting to ₹ 3.25 crore in 357 cases, which can broadly be classified under the following categories:

(₹ in crore)			
Sl. No.	Category	Number of cases	Amount
1.	Computerisation in Transport Department (A Performance Audit)	1	0.10
2.	Short realisation of trade tax	9	1.99
3.	Non realisation of tax and penalty	240	1.04
4.	Other irregularities	107	0.12
Total		357	3.25

During the year 2010-11, the Department accepted non-levy of taxes on vehicles, loss of revenue and other deficiencies amounting ₹ 1.08 crore in 314 cases.

A Performance Audit on “IT audit on VAHAN and SARATHI software” involving financial effect of ₹ 0.10 crore and few illustrative cases involving financial effect of ₹ 20.23 lakh are mentioned in the following paragraphs.

6.9 Computerisation in Transport Department

Highlights

We found partial utilisation of the system of VAHAN and SARATHI as a Management Information System tool. The modules/reports like Permits including *inter-state* movement, Enforcement/Vehicle Check Report, Temporary registration, Demand, collection and balance statements, Management Information System Report, Conductor's License were not made operational.

(Paragraph 6.9.10)

We noticed that efforts were not made to develop expertise within the Department to handle the database administration function, the database administration was being handled by the NIC.

(Paragraph 6.9.13)

Entry of invalid data was not rejected in the software. We found that out of 6,26,699 registration records of vehicles, 7670 vehicle contained same chassis number and engine numbers; in RTO Raipur, 138 cases of duplicate chassis number were found while in RTO Bilaspur zero digits was entered in chassis number column in one case.

(Paragraph 6.9.14)

We observed that the Department did not have a formal business continuity and disaster recovery plan for continuation of the Departmental activities in the event of a disaster. There was no central database; backup/standby servers were not installed in the field offices. Thus in the event of data loss; the Department has no means to restore the data.

(Paragraph 6.9.18)

There was short realisation of ₹ 1.87 lakh on account of fees for choice numbers which the VAHAN software also failed to detect as no master data was created for choice number despite presence of such facility in the software.

(Paragraph 6.9.22)

In three RTOs, we found that in 3527 vehicles, tax clearance data was not fed by the transport authorities in VAHAN software while issuing/accepting NOC.

(Paragraph 6.9.25)

We found that though there is a system in the VAHAN software to update the tax rate, but the Department did not update the same. Further scrutiny revealed that in respect of 1443 vehicles, life time tax amounting to ₹ 49.07 lakh was leviable. However, the RTO levied and realised only ₹ 40.94 lakh which resulted in short realisation of ₹ 8.13 lakh.

(Paragraph 6.9.26)

6.9.1 Introduction

The Motor Vehicles (MV) Act, 1988 vests upon the State Government the responsibility of providing an efficient public transportation system, registration of vehicles, issue of driving licenses, road permits, fitness certificates and collection of road taxes. The State Transport Department administers and implements the above activities. It is also entrusted with policy making, co-ordination, implementation, monitoring and regulatory functions of all transport related activities and enforces transport rules to collect tax and fee. The Regional Transport Officers (RTOs) implement the Chhattisgarh Motor Vehicles Taxation (CGMVT) Act and Rules for the state.

The Government of India, Ministry of Road Transport and Highways had embarked upon a Scheme for creation of a National Database network by introduction of Information Technology in the Road Transport Sector. The scheme was implemented through National Informatics Centre (NIC) and was desired to be operated in such a way that data from all the RTOs in the state flows in the “State Register” which in turn was to be captured at the National level. Two softwares were designed by the NIC for this purpose, VAHAN that dealt with registration of the vehicles and SARATHI that dealt with issue of licenses.

The department started the VAHAN project on pilot basis in RTO Raipur in July 2005 and thereafter implemented the same in other RTOs after a gap of five years in a phased manner till February 2011. Similarly the SARATHI project was also started in pilot basis in RTO, Raipur in September 2009 and implementation of the same was completed in December 2010 in phased manner in other RTOs. However, though SARATHI programme was installed in RTOs, Kanker and Dantewada but the same were not started till the date of audit.

6.9.2 Organisational setup

The Department is under the administrative control of the Transport Commissioner (TC), who is assisted by one Additional TC, one Joint TC, one Assistant TC and one Deputy Director, Finance (DDF) at headquarter. Besides, there are three Regional Transport Officers (RTO), three Additional Regional Transport Officers (ARTO) and 10 District Transport Officers (DTO) under the administrative control of TC. In addition to this, 15 check posts and two sub check posts with nine flying squads are under the supervisory control of RTOs/ARTOs/DTOs concerned.

National Informatics Centre (NIC) (Chhattisgarh unit) has been providing technical assistance for customization and backend integration for implementation of “VAHAN” and ‘SARATHI’.

6.9.3 Audit objectives

The audit objectives were to assess whether:

1. the overall objectives of computerisation through the NIC developed computer application of VAHAN and SARATHI were achieved;

2. the phase wise implementation schedules for the State for VAHAN and SARATHI were achieved as per time frames fixed;
3. whether local applications for vehicle registration and driver licenses developed and implemented by the States, to the extent they differ from the structure of VAHAN and SARATHI, have defeated across the country, computerisation objectives of the Ministry;
4. computerised systems implemented were complete (module wise) and correctness and completeness of the data captured by the RTO offices;
5. connectivity systems established between RTOs in the State for creation of State Registers of vehicles and licenses and National Registers and Central Servers were put in place towards achievement of above stated objectives;
6. the Computerised National Permit system was implemented as planned for and project objectives were achieved;
7. reliable general and security controls were in place to ensure data security and audit trail besides back up of data for loss of data/crash of system and to have an overall assurance of the functioning of the computerised systems for the stated objectives;
8. internal control mechanism was in place both at the Ministry and State level to monitor the implementation of the projects.

6.9.4 Audit scope and methodology

The scope of the IT audit included the audit of implementation and examination of controls in the application software 'VAHAN' and 'SARTHI' viz. registration of vehicles and allied activities, collection of taxes and fees and issuance of driving licence and allied activities for the period from the date of implementation up to October 2011 and a review of the performance of the concessionaire. Apart from the office of the Transport Commissioner, three¹ regional transport offices were selected on the basis of their working. The database of these RTOs was provided by the Transport Department in the shape of DMP files, which were imported and analysed through SQL and Microsoft excel.

6.9.5 Audit criteria

The provisions of the following Acts and Rules were used as audit criteria.

- Motor Vehicles (MV) Act, 1988
- Central Motor Vehicles Rules (CGMV), 1989
- Chhattisgarh Motoryan Karadhan Adhiniyam (CMKA) 1991 and rules made there under
- Chhattisgarh Motoryan Karadhan Adhiniyam 1994.

6.9.6 Acknowledgement

Indian Audit and Accounts Department acknowledges the cooperation of the Transport Department in providing necessary information and records for audit.

¹ Ambikapur, Bilaspur and Raipur

The audit methodology and scope of audit scrutiny was discussed with the Principal Secretary cum Transport Commissioner, Chhattisgarh in an entry conference held on 2nd of September 2011. The Performance audit was forwarded to the State Government on 4 November 2011. The exit conference was held on 9 January 2012 with the Secretary, Transport Department, Chhattisgarh to discuss the major audit findings.

The Department gave their response and assured to further examine the audit observations and recommendations. The replies of the Department have been appropriately incorporated in the respective paragraphs.

Audit Findings

Deficiency noticed in Planning, implementation and environmental controls.

6.9.7 Deficiency in Planning

In order to achieve the desired objectives there should be a proper 'Information Technology Strategy' and a well defined IT Plan. However, no IT strategy or IT plan was formulated till date. The department did not have a copy of the User Requirement Specifications (URS) for any of the applications. The documentation of the application system for its maintenance, testing and its results were also not available. Further, changes made to the system were not documented and were carried out in an ad hoc manner. It was also noticed that the department did not have a well defined and documented password policy.

During exit conference, the Government while accepting the audit observation stated that 'VAHAN' and 'SARATHI' programme were initiated by Government of India (GOI) and NIC was appointed as the nodal agency by GOI. As such, no strategy or plan was to be prepared by the State Government. However, the Secretary stated that steps are being taken by the Department to overcome the deficiency of the software and concerned RTOs/ARTOs/DTOs have been suitably advised to change passwords periodically.

Environmental Control

Environment controls are aimed at ensuring that the assets of the project are not put to risk. This requires that risk assessment and preventive measures be undertaken prior to implementing the project. During audit it was seen that the department had neither undertaken any risk assessment nor had put any preventive measures like offsite storage, disaster management plans, business continuity plans etc. in place before putting the system in use.

6.9.8 Non-migration of data to VAHAN software due to dissimilarity in field structure

Legacy data is the recorded information that exists in the storage system presently in use, and can include database records, spreadsheets, text files, scanned images

and paper documents. All these data formats are required to be migrated to a new system so as to have a complete database for the entire Department.

During test check of Data base of VAHAN Software, we found that the Department had been using local software for Registration of vehicles before 'VAHAN' Software, but dissimilarity in field structure of these two software resulted in non-migration of data from previous software to VAHAN Software. The Department has to manually feed previous software data as backlog entries.

During exit conference, the Government while accepting the audit observation stated that it will henceforth ensure entry of all backlogs through 'VAHAN' software only.

6.9.9 User manual not provided

The user manual for software is almost as important as the software itself. The user manual is vital for learning both basic and more advanced techniques of a program or application.

It was noticed that user manuals of the 'VAHAN' and 'SARATHI' software were not in place.

After this was pointed out, the department stated that user manual would be developed and made available to the staff.

During exit conference, the Government while accepting the audit observation stated that the User manual for 'VAHAN' is available with the NIC and will be handed over to TC Office for further transmission to RTOs. However no user manual is available for 'SARATHI' software, for which the matter will be taken up with NIC.

6.9.10 Partial utilisation of the system

The 'VAHAN' and 'SARATHI' software were designed to automate the management of complete information related to vehicle registration and driving licence. Though the system presently captures information relating to vehicle registration, owner and vehicle details, collection of tax/fee and fitness and issuance of driving licences, the following modules/reports were yet to be made operational:-

- Permits including *inter-state* movement.
- Enforcement/Vehicle Check Report
- Temporary registration
- Demand, collection and balance statements.
- Management Information System Report
- Conductor's Licence

Thus due to partial utilisation of the system, the Department has not reaped the benefits of VAHAN and SARATHI as Management Information System tools.

During exit conference, the Government while accepting the audit observation stated that they have intimated this to NIC and also the new vendor will ensure this in future.

6.9.11 Older version of VAHAN Software

In ARTO Ambikapur, we noticed that the VAHAN Software was running in older version (1.2.48) instead of the latest version provided by the NIC in the state. There are no registers maintained by the RTO and in the absence of which it is difficult to monitor the use of the software.

During exit conference, the Government while accepting the audit observation stated that mater will be taken up with NIC to update the software.

6.9.12 Non utilisation of Hardware

During the audit of RTO Bilaspur, we found that there were four HCL (INFINITE PRO BL 1295) Computers, one HCL server (INFINITE GLOBLE LINE 2700 ST) and 25 WLAN DONGLE FOR PC which remained idle.

After we pointed out the case, the department replied that due to shortage of technical staff and space for installation, it could not be put to use.

During exit conference, the Government while accepting the audit observation stated that all hardware will be utilised within short time.

6.9.13 Non-development of technical expertise within the Department

Any IT system though initially developed/implemented through outsourcing has to be invariably taken over by the department eventually, by developing expertise within the Department. The data captured through “VAHAN” is very critical since it involves personal data relating to the vehicle owners, insurance details besides revenue particulars and Demand Collection and Balance Statement.

Though the employees of the Department handle entire data entry at the Departmental counters, yet database administration was being handled by the NIC. We noticed that efforts were not made to develop expertise within the Department to handle the database administration function.

During exit conference, the Government while accepting the audit observation stated that previously NIC had provided Assistant Programmer to ensure this and now the new Vendor of “SMART CARD” will do the needful as NIC has withdrawn its technical officer from RTOs.

Validity of data

6.9.14 Invalid data of chassis number and engine number in database

The Central Motor Vehicles (CMV) Rules 1989, prescribe that a person while applying for registration of his vehicle shall mention the chassis number and engine number in the application form.

Test check of the registration database of the three RTOs, revealed that:-

- Out of 6,26,699 registration records of vehicles, 7670 vehicles contained same chassis number and engine number;
- In all test checked RTOs, only the last three to six characters of chassis number were fed;

- In RTO Raipur, 138 cases of duplicate chassis number were found;
- In RTO Bilaspur zero digits was entered in chassis number column in one case.

Non-entry of valid data should have been checked and rejected in the software. When we pointed out in audit, the Department accepted the audit objection and intimated that the data will be corrected after checking of manual records.

During exit conference, the Government while accepting the audit observation stated that the matter will be reviewed and necessary action will be taken.

6.9.15 Non-entry of valid data in key fields

As per the MV Act, 1988, tax is levied based on parameters like sale amount and unladen weight in respect of private motor cars, motorcycles etc., seating capacity in case of passenger vehicles like stage carriages and contract carriages and laden weight in the case of goods vehicles.

Data analysis of the registration database in respect of the test checked RTO offices revealed that certain key fields contained the value 'zero' in several records. The audit findings are summarised below:

- Sale amount was entered as zero in 79405 cases.
- Purchase date was null in 2413 cases.
- Manufacture year was wrongly entered in two /three digit in 75 cases.

Non-entry of valid data in the above key fields indicated deficiency in input controls and absence of supervision.

When we pointed out the cases in audit, the RTOs replied that instruction has been issued to the data entry operators to ensure correctness of data.

During exit conference, the Government while accepting the audit observation stated that after implementation of 'SMART CARD' project, the vehicles will be registered at dealer point and data will be cross checked by RTOs before issuing the Registration Certificate.

6.9.16 Incorrect entry of fitness validity period

According to Rule 62 (1) of the Central Motor Vehicles Rules, 1989 " A certificate of fitness in respect of a new transport vehicle granted under section 56 shall be valid for the period of two years."

During test check of the records of the three RTOs, we found that there were 140 transport vehicles whose fitness validity period was wrongly entered as 15 years in VAHAN Software. This is violation of CMV Rules 1989.

When we pointed out the case in audit, the RTOs replied that due to wrong selection of class in vehicle, fitness

validity was wrongly shown as 15 years.

During exit conference, the Government while accepting the audit observation stated that lack of technical staff and expertise resulted in entry of incorrect data. The same will be taken care of in future.

6.9.17 Non-monitoring of IT assets

An IT asset register is required to be maintained for effective asset management including better monitoring and security of IT asset in particular. However, we noticed that register of IT assets was not maintained in RTO's Ambikapur and Raipur.

When we pointed out the cases, the RTOs replied that the register will be maintained.

During exit conference, the Government while accepting the audit observation stated that IT assets register will be maintained at all offices.

Safety and Security of data

6.9.18 Absence of business continuity and disaster recovery plan

A business continuity plan is a roadmap for continuing operations under adverse conditions. It was observed that the department did not have a formal business continuity and disaster recovery plan for continuation of the departmental activities in the event of a disaster.

In the three RTO's audited, backup of the data was not being taken on an external media so that it could be stored in an offsite fire safe location and be readily available when needed. Since there is no central database, in the event of data loss, field offices would have no means to restore the data.

It was also observed that the backup/standby servers were not installed in the field offices so as to immediately resume the work in case of server failure due to fault crash. Thus, it is essential that the computer hardware, software and data are kept under strict fire safety measures.

During exit conference, the Government while accepting the audit observation stated that the RTOs have been advised to take regular backup and to keep the same on a separate system and CD/portable hard disk at RTO office. But due to work load and frequent transfer of trained staff the desired outcome could not be gained. To overcome this the department is seriously contemplating to outsource entire RTO computerisation activities including deploying additional man power for backlog entry under 'SMART CARD' project for which the process of tendering has already been completed and work will start after signing of MoU.

6.9.19 Unauthorised access due to weak physical and logical access controls

Logical access controls are tools used for identification authorisation and accountability in computer information systems. They are components that enforce access control measures for systems, programs, processes, and

information. Logical access controls can be embedded within operating system, applications, add-on security packages, or database.

It was observed that although each and every operator had different user ID and password, the operators shared their password with each other and in case of unavailability of any one of the operators, the work of that user was done by the other users by utilising his/her password. This informal methodology adopted was fraught with risk of unauthorised entries and also loss of trail for any such entries. Further, no documented password policy specifying the need to change the password periodically was circulated.

There was also no restriction on 'logon' attempts to prevent access by unauthorised users. As such, the system was exposed to the risk of unauthorised access and consequent loss/transferring of data.

During exit conference, the Government while accepting the audit observation stated that the Password security policy has been given to Transport Commissioner Office by NIC to convey the same to the Transport offices. Restriction on the "logon" attempts will be communicated by NIC to their Headquarter.

6.9.20 Absence of firefighting equipment at server room

During the audit, we noticed that there was no fire detection/fighting equipment or fire extinguishers to fight any contingency in two RTO's².

After this was pointed out, the RTO's merely stated that these equipments were not available with them and hence not installed.

During exit conference, the Government while accepting the audit observation stated that fire-fighting equipment will be made available to all RTOs.

Deficiencies noticed in software VAHAN

Absence of validity checks

Data validation is a process of ensuring that a program operates on clean, correct and useful data. It uses routines, often called "validation rules" or "check routines", that check for correctness, meaningfulness and security of data that are input to the system. The rules may be implemented through the automated facilities of a data dictionary, or by the inclusion of explicit application program validation logic.

We noticed that data validation checks to ensure data was valid, sensible, reasonable and secure before these could be processed were not present in the system as is evident from a number of cases mentioned in the following paragraphs:-

² Ambikapur and Raipur

6.9.21 Sale of vehicles without trade certificate

According to Rule 33 of CGMV Rules 1989 “A motor vehicle in the possession of a dealer shall be exempted from the necessity of registration subject to the condition that he obtains a trade certificate from the registering authority having jurisdiction in the area in which the dealer has his place of business”.

During test check of the data base of VAHAN Software in RTO Ambikapur and Raipur, we found that the validity of trade certificate of two dealers had already expired. Despite this the registering authority had registered vehicles in VAHAN Software. This indicates that there was no system in the software to check the validity period of the trade certificate,

while registering the vehicles.

When we pointed out the case in audit, the RTO Ambikapur recovered the composition fees while RTO Raipur stated that notices have been issued to recover the amount.

During exit conference, the Government while accepting the audit observation stated that NIC will be requested to make necessary modifications in the software.

6.9.22 Absence of validity checks to prevent short realisation of fee

According to Rule 55-A (a), (b) and (c) of Chhattisgarh Motor Vehicles Rules 1994, the Government had fixed specific fee for some special registration numbers (Choice numbers).

During the test check of the data base of the VAHAN Software we found in two RTOs³ that in respect of 25 vehicles, choice fee amounting to ₹ 2.69 lakh was leviable. However, the RTO's levied and realised only ₹ 82000/- in these cases. This resulted in short realisation of ₹ 1.87 lakh.

The VAHAN software also failed to detect these cases as no master data was created for choice number despite presence of such facility in the software.

When we pointed out the case in audit, the RTO Bilaspur recovered the whole amount, while RTO Raipur stated that the notices have been issued to recover the balance amount.

During exit conference, the Government while accepting the audit observation stated that lacunae in the software has been rectified by NIC and the balance amount will be recovered from the parties.

³ Bilaspur and Raipur

6.9.23 Absence of validity checks to prevent registration of vehicles with deficient insurance cover

According to Rule 47 1 (b) of the CGMV Rules, 1989, an application for registration of a motor vehicle shall be accompanied by valid insurance certificate.

During the test check of VAHAN data base, in two RTO's⁴, we found that

➤ In two RTO's, in case of 426 records, one cover note was used in registration of two vehicles. Within these records, there were 26 cover note numbers where even three vehicles were registered with a single cover note.

➤ In RTO Raipur, insurance details were shown as 'Not Available' in 184772 cases.

Non-entry of valid data should have been checked and rejected in the software. Hence due to non-provision of uniqueness of data led to failure on the part of VAHAN software.

When we pointed out the cases in audit, the RTO's replied that it is due to data entry error and data will be fed in Software after verifying the records. The transport authorities also did not verify the authenticity of the insurance cover note submitted along with the application. Thus, the absence of validation checks and input supervision in the system to prevent the use of duplicate cover notes resulted in fraudulent use of insurance cover notes.

During exit conference, the Government while accepting the audit observation stated that the request for inclusion of validation for duplicate insurance cover note will be communicated to 'VAHAN' development team after verifying the same.

6.9.24 PAN number not entered in field

The permanent account number (PAN) issued by Income Tax Department is required to be quoted in cases of purchase of motor car and provision had been made in the registration module of the VAHAN Software to capture the PAN details. Scrutiny of the VAHAN software revealed that the department had not made it compulsory for input validation. Hence, there were 14662 cases in the three RTO's in which PAN details were not mentioned.

When we pointed out the cases, the RTOs replied that due to the fault by data entry operator PAN number could not be filled. PAN numbers available in the file will be updated in the VAHAN Software.

During exit conference, the Government while accepting the audit observation stated that all the cases pointed out by the audit will be reviewed and missing PAN numbers will be entered through backlog entry.

⁴

Ambikapur and Raipur

6.9.25 Tax data not fed while giving 'No Objection Certificate' (NOC)

According to Section 48 (5) of Motor Vehicles Act 1988 "before granting the NOC, the registering authority shall verify whether all the amounts due to Government including road tax in respect of that motor vehicle have been paid and taken into account".

During test check of the records of the three RTOs, we found that in 3527 vehicles, tax clearance data was not fed by the transport authorities in VAHAN software while issuing/accepting NOC.

When we pointed out the case in audit, the RTOs stated that NOC were issued to the vehicles after verifying all the related documents. It was further stated that most of the vehicles objected are of life time tax nature and the data entry

operator did not mention the tax paid date due to which tax report is not entered. The matter will be taken care of in future.

During exit conference, the Government while accepting the audit observation stated that the matter will be scrutinized and agreed to recover the tax amount with penalty if the issue of NOC is found incorrect.

Non-updating of business Rules

6.9.26 Short-levy of Life time tax

The Government of Chhattisgarh vide its notification dated 10 November 2010 enhanced the rate of life time tax by one per cent in each class.

During the test check of the data base of the VAHAN Software we found that though there is a system in the VAHAN software to update the tax rate, but the department fails to update the same. Further scrutiny revealed that in respect of 1443 vehicles, life time tax amounting to ₹4907222 was leviable. However, the RTO

levied and realised only ₹ 4093548 which resulted in short realisation of ₹ 813404.

When we pointed out the case in audit, the RTO Raipur accepted the objection and replied that the notices have been issued to the vehicle owners for collection of the balance amount. Further progress will be intimated to audit.

During exit conference, the Government while accepting the audit observation stated that due to the first occasion of tax changes since software implementation, there had been a delay due to communication gap with the NIC in revising tax rate in software which resulted in short levy of tax. In future, steps will be taken to ensure that NIC is well informed in advance regarding any such changes in tax rates.

Deficiencies noticed in software 'SARATHI'

6.9.27 Lapses in Security measures in 'SARATHI'

According to Rule 17 (1) (b) of CGMV Rules 1989 "Application for grant of licence to drive transport vehicle shall be accompanied by driving certificate in form 5 issued by the driving school registered under section 12 of Motor vehicle Act 1988."

We found in test check of 'SARATHI' Software that validity period of "National Motor Training School, Raipur" had lapsed on 1/07/2011, but the driving licence were issued through the software by endorsing the Form-5.

When we pointed out the cases in audit, the RTO Raipur accepted the objection and replied that the notice

has been issued to the institute and further action will be intimated to audit.

During exit conference, the Government while accepting the audit observation stated that that the matter will be taken up with the NIC to rectify the deficiency.

6.9.28 Conclusion

A fundamental element of internal control is the segregation of certain key duties. The basic idea of underlying segregation of duties is that no employee or group of employees should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. It was observed during audit that the staff responsible for data entry was also responsible for authorisation, as all rights for authorisation of data entry were provided to data entry staff in all the RTOs test checked in audit. Thus, the risk of manipulation of data increased in the absence of proper segregation of duties.

The objective of Computerisation of the Transport Department was aimed at imparting better, efficient and timely service to the users and plugging revenue leakage. However, it was observed that Completeness, accuracy and integrity of data entered and processed were not ensured due to deficient application controls coupled with supervisory controls. Several components of the modules were not in operation and software deficiencies were found which necessitated manual intervention for rectification, thereby rendering the system unreliable. Creation of a central database and uploading of paper based records to the database could not be completed even after two years of the commercial operation of the system. Thus, the objectives of implementing 'VAHAN' for better citizen services, improving working of RTOs and enforcement agencies, an efficient and transparent revenue collection, etc., could not be achieved fully.

6.9.29 Recommendations

The Government may consider the following:

- Frame the security and backup policies and define the business continuity plan.
- Identify gaps in the process mapping and incorporate them in the application.
- Strengthen the input and validation control features to ensure that incorrect and incomplete data are not fed into the system.
- Ensure adequate physical and logical access control so that the safety and security of data is not compromised.
- Ensure proper supervisory check/control over the system.
- Train departmental officials in system management and database operation.

6.10 Audit observations

We scrutinised the records of the office of Transport Department and found several cases of non-observance of the provisions of the Act/Rules, resulting in non/short levy of fees and fines, etc, as mentioned in the succeeding paragraphs. These cases are only illustrative, based on test check carried out by us, reflecting the flaws in the working of the Department. Although we point out similar cases every year, the irregularities persist. As such, we feel that the Department needs to improve, its internal control system, in order to guard against the recurrence of such lapses.

6.11 Non-realisation of tax from owners of goods and passenger vehicles

Section 3 and 5 of the Chhattisgarh Motor Vehicle Act, states that tax shall be levied on the owner of every goods and passenger vehicles used or kept for use in the state at the rate prescribed in the first schedule of the Act. In case of non-payment of the tax due, the owner shall, in addition to the payment of tax due, be liable to pay penalty at the rate of one twelfth of unpaid amount of tax for the default of each month or part thereof but not exceeding the unpaid amount of tax as laid down under section 13(1) of the Act. Where any owner fails to pay tax, penalty or both the taxation authority is required to issue a demand notice and take action to recover the amount as arrears of land revenue.

We found in test check of records of two⁵ District Transport Officers (DTOs) (July 2008) that though the owners of 39 goods and 33 passenger vehicles did not pay the road tax of ₹ 8.37 lakh for the period July 2005 to March 2008, no action was initiated by the DTOs to issue demand notice for the recovery of the tax from the defaulting vehicle owners. This resulted in non-realisation of tax amounting ₹ 8.37 lakh. Besides, penalty amounting ₹ 8.37 lakh for delay in payment of tax was also leviable.

After we pointed this out, the Government intimated (September 2011) that an amount of ₹ 6.28 lakh has been

deposited by the vehicle owners and penalty of ₹ 2.83 lakh is not recoverable as the tax was deposited in time. As regards the remaining cases it was stated that demand notices have been issued for the recovery of ₹ 7.63 lakh.

Though the tax was deposited timely by the vehicle owners, but the same was neither noted in the taxation register maintained by the Department nor intimated during the course of audit. This indicates improper maintenance of records and lack of internal control mechanism in the Department.

⁵ Baikunthpur, Kawardha

6.12 Short levy of composition fee

According to Rule 194 (1) of Motor Vehicle Act 1988 read with notification dated 2/02/2007, driving a vehicle exceeding permissible weight shall be punishable with levy of composition fee of ₹ 2000 per tonne and ₹ 1000 per tonne for each additional tonne or part thereof in excess of the permissible load for the first time and for second or subsequent offences respectively wherever applicable each time.

We found in the test check of the records of the five barriers, for the period February 2007 to July 2010 that in 327 cases, load was in excess of the permissible weight. The in-charge officer levied and recovered composition fee of ₹ 5.00 lakh as against the recoverable fee of ₹ 8.49 lakh from the owner of the vehicles. This resulted in short levy of ₹ 3.49 lakh.

After we pointed this out, the Government intimated (September 2011) that recovery

amounting to ₹ 0.35 lakh has since been made in full in respect of three check posts. As regards check post Wadraf Nagar, recovery of ₹ 10,000 has been made against the recoverable amount of ₹ 1.71 lakh and for Patekohara, recovery amounting ₹ 27,300 has been made against the recoverable amount of ₹ 1.43 lakh. It was further stated that for the balance recovery of ₹ 2.77 lakh, the concerned check post officers have been directed for early recovery and they have also assured for the same.

CHAPTER VII- ELECTRICITY DUTY

7.1 Tax administration

Electricity Department is one of the major revenue earning Department of the State and the contribution of the electricity receipts to the total tax revenue of the State during the last five years were between 5.58 and 9.29 *per cent*. Receipts from electricity comprise receipts derived from duty, fee, cess under the provisions of Electricity Duty Act and rules and notifications issued thereunder. The Department implements the undermentioned Acts and Rules:

- Madhya Pradesh Electricity Duty Act, 1949 (as adopted in Chhattisgarh)
- Madhya Pradesh *Upkar Adhiniyam*, 1981 (as adopted in Chhattisgarh)
- Chhattisgarh *Upkar Sanshodhan Adhiniyam*, 2004.

7.2 Analysis of budget preparation

There is no specific process adopted for the preparation of budget. Budget is prepared according to the schemes of the Government. Four offices are working under the administrative control of energy department whose budget are prepared separately. Information in respect of State budget are compiled in Chief Electrical Inspector office and submitted to Government for approval.

7.3 Trend of Revenue Receipts

Budget Estimates and Actual Receipts from Electricity Department during the years 2006-07 to 2010-11 alongwith the total tax receipts during the period is exhibited in the following table:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the state	Percentage of the actual receipts vis-à-vis total tax receipts
2006-07	500.95	469.12	(-)31.83	(-)6.35	5045.70	9.29
2007-08	481.10	394.86	(-)86.24	(-)17.93	5618.10	7.02
2008-09	476.75	415.10	(-)61.65	(-)12.93	6593.72	6.29
2009-10	528.25	416.91	(-)111.34	(-)21.08	7123.25	5.85
2010-11	554.31	502.53	(-)51.78	(-)9.34	9005.14	5.58

It is seen from the above table that the actual receipts were lesser than the Budget Estimates during the period. The variation between the Budget Estimates and actual receipts ranged between (-) 21.08 and (-)6.35 *per cent*. The percentage of actual receipts to total tax receipt ranged between 5.58 and 9.29 *per cent* during the period.

The wide variation between the Budget Estimates and the actual receipts indicates that the Budget Estimates was not prepared on realistic basis. Since Budget Estimates is an important part of the financial planning of the Government, it is desirable that these should be close to the actual. The

decrease in actual receipts during the year as intimated by the Department (September 2011) was due to non deposition of energy development cess by the consumers of captive power plants.

We recommend that the Government may issue suitable instructions to the Department for preparing the Budget Estimates on realistic basis so as to make the same closer to the actuals.

7.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹199.64 crore of which ₹ 9.76 crore were outstanding for more than five years. The following table depicts the position of arrear of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	9.76	Nil	0.01	9.75
2007-08	9.75	35.23	Nil	44.98
2008-09	44.98	44.66	3.52	86.12
2009-10	86.12	68.34	Nil	154.46
2010-11	154.46	45.18	Nil	199.64

It may be seen from the above table that the Department had not taken any substantial efforts for the recovery of arrears during the years 2006-07 to 2010-11. Though it made efforts in 2006-07 and 2008-09, but the amount of recovery was negligible.

We recommend that the Department should take remedial measures for improving the collection of arrears of revenue. The Government needs to take appropriate measures to recover the arrears.

7.5 Impact of audit

7.5.1 Position of Inspection Reports (IR) : During the last five years, audit through its IR had pointed out non/ short realisation of electricity duty and cess and non-realisation of duty due to irregular exemption amounting to ₹ 113.73 crore in 45 cases. Of these, the Department/ Government had accepted audit observations in 10 cases involving ₹ 29.37 crore. The Department had recovered ₹ 0.18 crore. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2005-06	01	6	2.48	Nil	Nil	Nil	Nil
2006-07	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2007-08	02	23	61.39	6	29.07	1	0.07
2008-09	02	16	49.86	4	0.30	1	0.11
2009-10	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Total	05	45	113.73	10	29.37	2	0.18

7.5.2 Position of Audit Reports: In the Audit Report 2005-06 to 2009-10, the cases of non/short realisation of duty and cess etc were indicated involving ₹ 82.74 crore. The Department accepted observations of ₹ 49.97 crore of which ₹ 0.36 crore had been recovered till March 2011 as shown in the following table:

(₹ in crore)

S. No	Year of the Audit Report	Total money value	Amount accepted	Recovery made up to March 2011
1.	2005-06	1.30	0.46	0.36
2.	2006-07	Nil	Nil	Nil
3.	2007-08	57.76	28.03	Nil
4.	2008-09	23.68	21.48	Nil
5.	2009-10	Nil	Nil	Nil
	Total	82.74	49.97	0.36

As seen from the above table, the recovery made by the Department is only 0.72 per cent of the amount involved in the total accepted cases.

We recommend that the Government should intensify its measures to ensure expeditious recovery of revenue in respect of the accepted cases.

7.6 Internal Audit

The objective of an Internal Audit Wing (IAW) is to have a deterrent and reforming effect in the direction of prevention of mistakes and to play a corrective role by pointing out mistakes and ensuring remedies without loss of time.

There was no IAW in the Department, thus leaving it vulnerable to risk of control failure.

We recommend that the Government should expedite the setting up of IAW in the Department.

7.7 Results of audit

We conducted test check of the records of three units of the Electricity Department during the year 2010-11. We found non-recovery of electricity fee, cess, non-realisation of electricity fee, irregular exemption and other irregularities amounting to ₹ 579.31 crore in 69 cases. The observations broadly fall under the following categories as mentioned below:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Non-recovery of electricity fee and interest	9	11.87
2.	Irregular exemption of electricity fee	03	29.45
3.	Non-realisation of electricity fee	15	2.02
4.	Non-recovery of arrears of cess	27	534.41
5.	Other irregularities	15	1.56
	Total	69	579.31

During the course of the year, the Department accepted deficiencies involving ₹ 577.75 crore in 64 cases. An amount of ₹ 0.83 lakh has been recovered in the cases pointed out by audit in earlier years.

An illustrative case involving ₹ 1.13 crore is mentioned in the following paragraph.

7.8 Non-realisation of cess and interest on single point connection.

According to Rule 3 of Madhya Pradesh Upkaar Adhiniyam, 1981 (as adopted in Chhattisgarh) read with Chhattisgarh Upkar (Sanshodhan) Adhiniyam 2004, every distributor of electrical energy shall pay, in addition to the electricity duty, an energy development cess at the rate of five paise per unit on the total units of electrical energy sold or supplied to a consumer or consumed by himself or his employees. Further, as per Rule 5 (1) of the Act, the unpaid cess shall carry interest at the rates prescribed vide notification dated 22 July 1975.

We found in the test check of the records of the Divisional Electrical Inspectors (DEI) Bilaspur, (April 2010) that the Chhattisgarh State Power Distribution Company Limited (CSPDCL) distributed/sold 15,16,88,875 units of electricity to consumers under single point connection scheme. However, while collecting the energy charges, cess was not collected. This resulted in non-realisation of cess amounting ₹ 75.84 lakh and interest of ₹ 37.12 lakh.

After these cases were pointed out (between October 2010 to February 2011), the Department issued letters to concerned divisions for recovery of cess amount.

The matter was brought to the notice of the Government (October 2010) for their comments; their reply has not been received (January 2012).

CHAPTER VIII: FOREST AND OTHER NON-TAX RECEIPTS

8.1 Tax administration

The Forest Department generates revenue mainly through sale of timber, firewood, bamboo and sale of minor forest produce which are the major sources of revenue for the Government. The forest produce is disposed through auction, invitation of tenders etc. Evasion of revenue occurs mainly through non achievement of target and supplies according to working plan.

The protection, conservation and sustained growth of the forests in Chhattisgarh state is the responsibility of the Forest Department which functions under the Principal Secretary (Forests). The Principal Chief Conservator of Forests (PCCF), Chhattisgarh at Raipur is responsible for overall administration of the Department.

The administration of forest divisions, sale of forest produce and realisation of revenue are the responsibilities of Divisional Forest Officers (DFO). Besides protection of forests, the Range Officers (RO) are responsible for carrying out the work of plantation, marking and felling of trees, transportation of timber and fuel wood from coupes¹ to depots, etc. The Working Plan (WP) circle and divisions have the responsibilities of timely preparation of WPs. The Forest Management and Information System (FMIS) division is the Information Technology wing of the Department to assist in Forest Management and Planning and application of software development. Department follows the undermentioned Acts and Rules for collection of revenue:

- The Indian Forest Act (IF) Act, 1927 and rules made thereunder;
- The Forest Conservation (FC) Act, 1980 and rules made thereunder;
- Chhattisgarh *Van upaj (Vyapar Viniyaman) Adhiniyam*, 1960 and rules made thereunder;
- National Working Plan Code (NWPC), 2004; and
- Instructions/Orders issued by Government/Department from time to time regarding assessment and collection of revenue.

8.2 Analysis of budget preparation

Budget is prepared as per rules 127 and 128 of the Forest Financial Rules. It stipulates the procedures for preparation of Budget Estimates. Budget are prepared by the Divisional Forest Officers (DFOs) and forwarded to Conservators of Forest (CFs) for onward transmission to the Chief Conservator of Forest (CCF)/Budget and Accounts.

The budget estimate for the year 2010-11 was ₹ 400.00 crore and revenue realised was ₹ 305.17 crore. There is a decrease of 23.71 *per cent* over the

¹ The Working Plan divides the forest area into various Working Circles (WC), WC into compartments and compartments into coupes.

budget estimate. The Department intimated (September 2011) the decrease was due to disturbances prevailing in the area.

8.3 Trend of Revenue Receipt

Actual receipts of the Department during the years 2006-07 to 2010-11 along with the non-tax revenue of the State ranged between 7.95 and 14.63 *per cent* as shown in the following table:

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total non tax receipts of the State	Percentage of actual receipts vis-à-vis total non-tax receipts
2006-07	211.53	205.79	(-) 5.74	(-) 2.71	1451.34	14.17
2007-08	250.00	258.07	8.07	3.23	2020.45	12.77
2008-09	280.00	322.29	42.29	15.10	2202.21	14.63
2009-10	365.00	345.85	(-) 19.15	(-) 5.25	3043.00	11.36
2010-11	400.00	305.17	(-)94.83	(-)23.71	3835.32	7.95

We observed that though the revenue receipt of the Department exceeded the budget estimates by 3.23 and 15.10 *per cent* during the year 2007-08 and 2008-09 respectively but there was shortfall in receipt in remaining year and the shortfall ranged between 2.71 and 23.71 *per cent*. Similarly the percentage of actual receipts of the Department to the total non-tax receipt of the State was ranged between 7.95 to 14.63 *per cent*. As regards 2010-11, the Revenue receipts fell short of the estimates by nearly 23 *per cent*.

8.4 Analysis of arrears of revenue

The arrears of revenue as on 31st March 2011 amounted to ₹ 2.45 crore of which ₹ 0.22 crore were outstanding for more than five years. The table mentioned below depicts the position of arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2006-07	0.22	201.86	201.84	0.24
2007-08	0.24	265.60	265.54	0.30
2008-09	0.30	311.35	311.20	0.45
2009-10	0.45	343.24	341.30	2.39
2010-11	2.39	357.19	357.13	2.45

It may be seen from the table that there was marginal increase of arrears of revenue. The arrears increased to ₹ 2.45 crore during 2010-11 as compared to ₹ 2.39 crore of the previous year i.e. an increase of 2.5 *per cent*.

8.5 Impact of audit

8.5.1: Position of Inspection Reports (IR) : During the last five years, audit through its IRs had pointed out non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc. with revenue implication of ₹ 278.35 crore in 1536 cases. Of these, the Department/Government had accepted audit observations in 1318 cases involving ₹ 135.09 crore. The details are shown in the following table:

(₹ in crore)

Year of IR	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		Cases	Amount	Cases	Amount	Cases	Amount
2005-06	4	186	53.81	1	0.07	Nil	Nil
2006-07	7	58	104.48	58	104.48	Nil	Nil
2007-08	1	5	5.17	5	5.17	Nil	Nil
2008-09	11	285	19.60	256	9.79	Nil	Nil
2009-10	11	1002	95.29	998	15.58	1	9.00
Total	34	1536	278.35	1318	135.09	1	9.00

8.5.2: Position of Audit Reports : In the Audit Report 2005-06 to 2009-10, the cases of non/short realisation of revenue, shortages of forest produce were indicated involving ₹ 101.17 crore as mentioned below:

(₹ in crore)

Year of Audit Report	Total Money Value	Amount Accepted	Recovery made up to March 2011
2005-06	11.55	Nil	Nil
2006-07	2.43	Nil	Nil
2007-08	Nil	Nil	Nil
2008-09	Nil	Nil	Nil
2009-10	87.19	9.02	Nil
Total	101.17	9.02	Nil

The above table indicates that during the last five years no recovery was effected by the Department.

The Government intimated that all the cases will be examined and efforts will be made for the early recovery.

8.6 Internal audit

Internal Audit is a vital component of the internal control mechanism and enables an organisation to assure itself that the prescribed systems are functioning reasonably well. During the year 2010-11, the IAW had planned audit of 36 units. 26 Inspection reports were sent to the respective divisions, of the 36 units audited.

8.7 Results of audit

Test check of records of nine units of forest department during the year 2010-11 revealed non/short realisation of revenue due to non-exploitation of bamboo/timber, low yield of timber/bamboo, shortage of forest produce, loss of revenue etc., amounting to ₹ 20.49 crore in 352 cases which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-realisation due to deterioration/ shortage of forest produce	149	0.75
2.	Loss of revenue due to low yield of timber	74	4.77
3.	Other irregularities	129	14.97
	Total	352	20.49

During the year 2010-11, the Department accepted the loss of ₹ 1.17 crore in 69 cases.

A few illustrative cases involving ₹ 14.90 crore are mentioned in the following paragraphs.

8.8 Audit observations

We scrutinised the records of various Divisional Forest Offices (DFOs) and found several cases of non-observance of the provisions of the Acts/Rules/Government notifications/instructions leading to loss of revenue due to non/short exploitation of bamboo/timber, low yield of timber, shortage of forest produce etc as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of the DFOs are pointed out by us each year, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that such omissions can be avoided.

8.9 Non-levy of transit fee

As per the provisions of Chhattisgarh Transit (Forest Produce) Rules, 2001, no forest produce will be transported from the forest land without a valid transit pass. The transit pass shall be issued by the Forest Department after payment of the prescribed transit fee. Further, by amendment in June 2002, transit fee at the rate of ₹ 7 per tonne was to be collected. Further, land diverted for non-forestry purposes under the Forest Conservation Act, 1980 shall remain forest land.

We found in the test check of records of Divisional Forest Officer (DFO), Durg, that land had been transferred to Bhilai Steel Plant for mining purposes. During the period between 2008-09 and 2009-10, 1.88 crore tonnes of Iron ore were extracted from the forest land diverted for the mining purposes. We

observed that no transit pass was ever issued for the transportation of the minerals extracted from the diverted forest areas and hence no transit fee could be realised from the quantity extracted from those areas. Thus, non enforcement of rules relating to collection of transit fee resulted in loss of ₹ 13.16 crore.

After being pointed out by us, the Government intimated (September 2011) that the matter regarding the issue is being examined in consultation with the Law Department.

8.10 Shortage of forest produce in Depots

Forest Department issues instructions from time to time that all material produced in coupes should be transported to Nistar Depots before 30th June each year in order to avoid loss due to deterioration, fire, theft, etc. Further, rule 22(1) of Chhattisgarh Financial Code provides that a preliminary report of the losses should be submitted expeditiously to the Head of the Department (HOD) as well as Accountant General (AG) and the investigation be completed within a period of six months from the date of detection of loss.

8.10.1 We found in the test check of record of DFO (General), Raipur, (May 2006) that forest produce valued at ₹ 14.96 lakh was found short during the physical verification of 12 Nistar² Depots conducted by the forest authorities in June 2006 for the year 2001-02 to 2004-05. Despite this

the DFO did not intimate the losses to the HOD and the AG. After this being pointed out by audit, the Government replied (September 2011) that in case of six depots³, the opening balances of the succeeding years indicate that there was no loss of material in depots. However, in respect of rest of the Depots, it was intimated that recovery/write off of loss amounting to ₹ 2.89 lakh is in progress. The Government further intimated that recovery of ₹ 1.33 lakh has been made in respect of three depots⁴.

8.10.2 We found in the test check of records of two⁵ Divisional Forest Officers (DFOs) between (February 2009 and March 2009) that forest produce valuing ₹ 9.41 lakh was found short during the physical verification of the depots conducted by the forest authorities. Despite this, the DFOs had neither taken any action to recover the value of the forest produce from the officials responsible for the shortage nor ascertained the reasons for the same.

After being pointed out by us, the Government intimated (September 2011) that due to wrong classification and measurement in coupe⁶, the difference in quantity and species has occurred in depot. Though there is loss in some

² Nistar means supply of Bamboo, Poles and Fuel Wood at subsidised rates to the needy villagers residing within five km of forest area.

³ Dharsivan, Uperwara, Abhanpur, Sandi, Bhatapara, Dhamtari

⁴ Torla, Barpali (2003-04 & 2004-05)

⁵ Kanker, Kawardha

⁶ Coupe is the area demarcated in forests for the purpose of cutting trees etc.

species but overall there is no shortage of production. The reply is not correct, our observation was based on the measurement of the produce available in depot which is final and after that there should not be any further variation. Further, conversion of one species to another species is also not correct.

8.11 Short realisation of Net Present Value of Diverted Forest Areas

As per the State Government order, dated 18.11.2004, the user agency shall deposit the Net Present Value for the diverted forest area at the rate prescribed to the State Forest Department.

We found in the test check of the records of the DFO (August 2008), that, on the proposal of the State Government, the Central Government in principle agreed for diversion of 84.00 Hectare of forest land for renewal of Mahamaya Iron and ore mines in favour of M/s

Bhilai Steel Plant, Durg for non forestry purpose. The diverted areas were under coupe No-159 and the site quality of these areas were classified as IV-B by the Divisional Forest Officer (DFO), Working plan Division, Durg. Accordingly, the DFO computed the Net Present Value (NPV) payable by the user agency as ₹ 5.21 crore at the rate of ₹ 6.20 lakh per hectare, which was deposited by the user agency in time.

On further scrutiny, it revealed that the DFO calculated the NPV payable by the user agency taking prescribed rate applicable for IV-C. Since the diverted forest land were classified as IV-B by the DFO, the NPV should have been computed applying the rate of IV-B i.e. ₹7.80 lakh per hectare and the total amount payable by the user agency should have been ₹6.55 crore. Thus application of incorrect rate by DFO resulted in short realisation of revenue of ₹1.34 crore.

After we pointed out the case (June 2011), DFO Durg asked (July 2011) the user agency to deposit the balance amount of ₹ 1.34 crore.

8.12 Short recovery of royalty

As per instructions laid down in letter no 345 dated 19.6.2008 of the Collector of Mines, Raipur Chhattisgarh that as per mines and minerals rules any minerals extracted from the bed of main channel, a royalty clearance certificate from Mining department is required to be obtained before processing disposal of the rock to avoid royalty evasion tendency.

We found in the test check of records of Executive Engineer (EE) Water Management Division No 1 Raipur, that 1,16,869 cum hard rock was excavated from main channel of Mahanadi main canal at 70 Km to 75 Km. Contract for lifting the hard rock was finalised in favour of M/s Jafari Construction, Raipur at the cost of ₹ 32.57 lakh.

However before finalising the contract, clearance from Mining Department was not obtained. Though the royalty for the extracted hard rock was worked

out to ₹ 35.07 lakh at the rate of ₹ 30.00 per cum and the agency was directed to get the entire amount of royalty deposited before lifting the materials, but no cognizance to the instructions of Mining Department was given by EE and the contractor was allowed to lift the materials without depositing the royalty. The contractor deposited ₹ nine lakh towards royalty against the evaluated royalty of ₹ 35.07 lakh. This resulted in short recovery of royalty of ₹ 26.07 lakh.

After we pointed out the case, the Divisional Officer replied that the contractor was instructed to deposit the royalty charges in the Mining Department.

The matter was brought to the notice of the Department and Government for their comments and their replies are awaited.



(PURNA CHANDRA MAJHI)
Accountant General (Audit)
Chhattisgarh

Raipur
The

13 MAR 2012

Countersigned

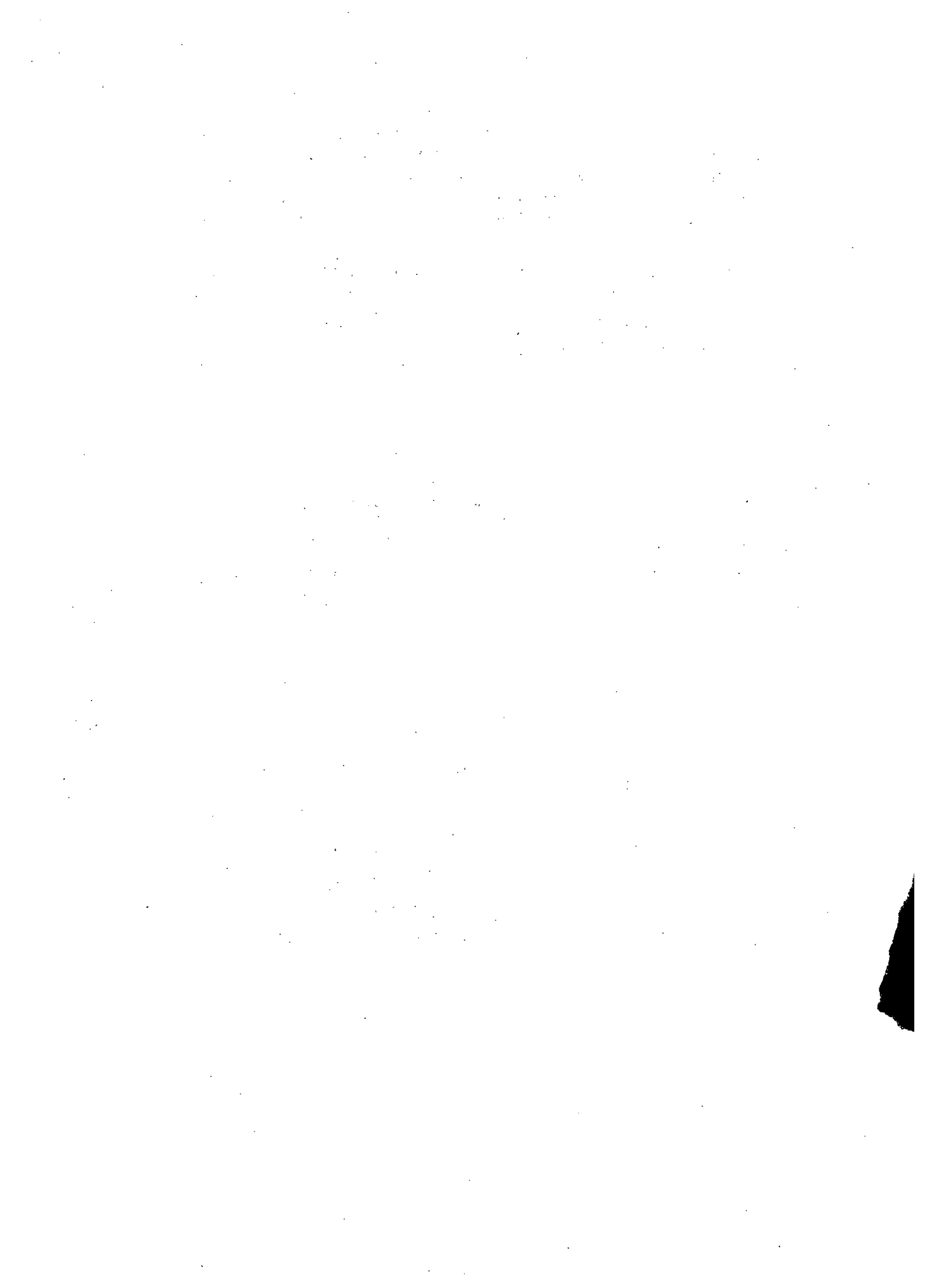


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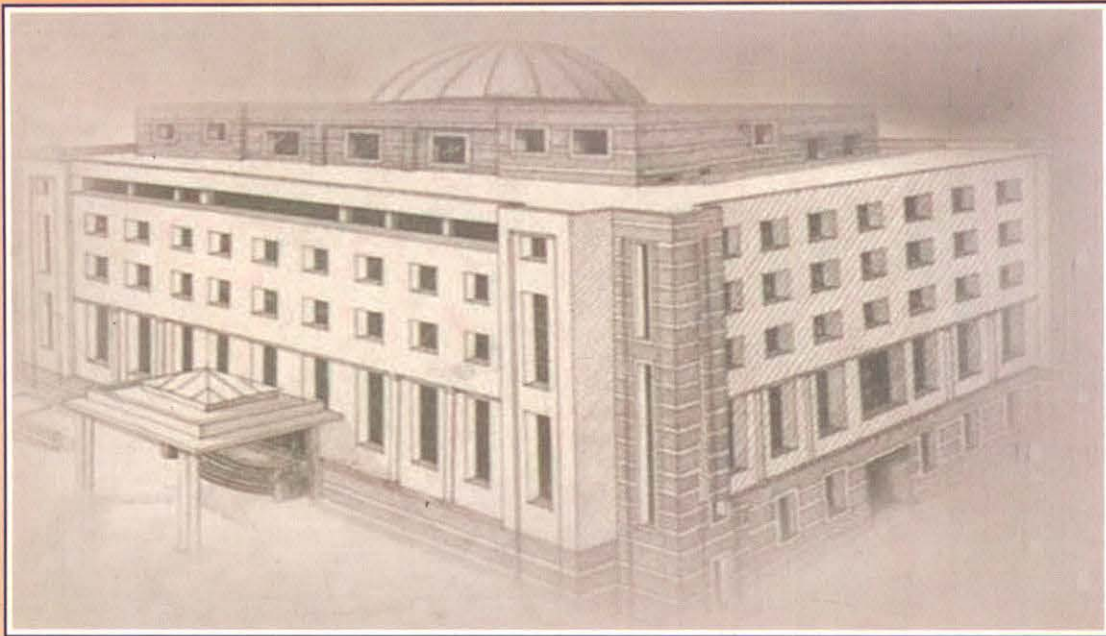
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