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on 28-3-2012



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

FOR THE YEAR ENDED 31 MARCH 2011

(REVENUE RECEIPT)

GOVERNMENT OF PUNJAB

8-2-11

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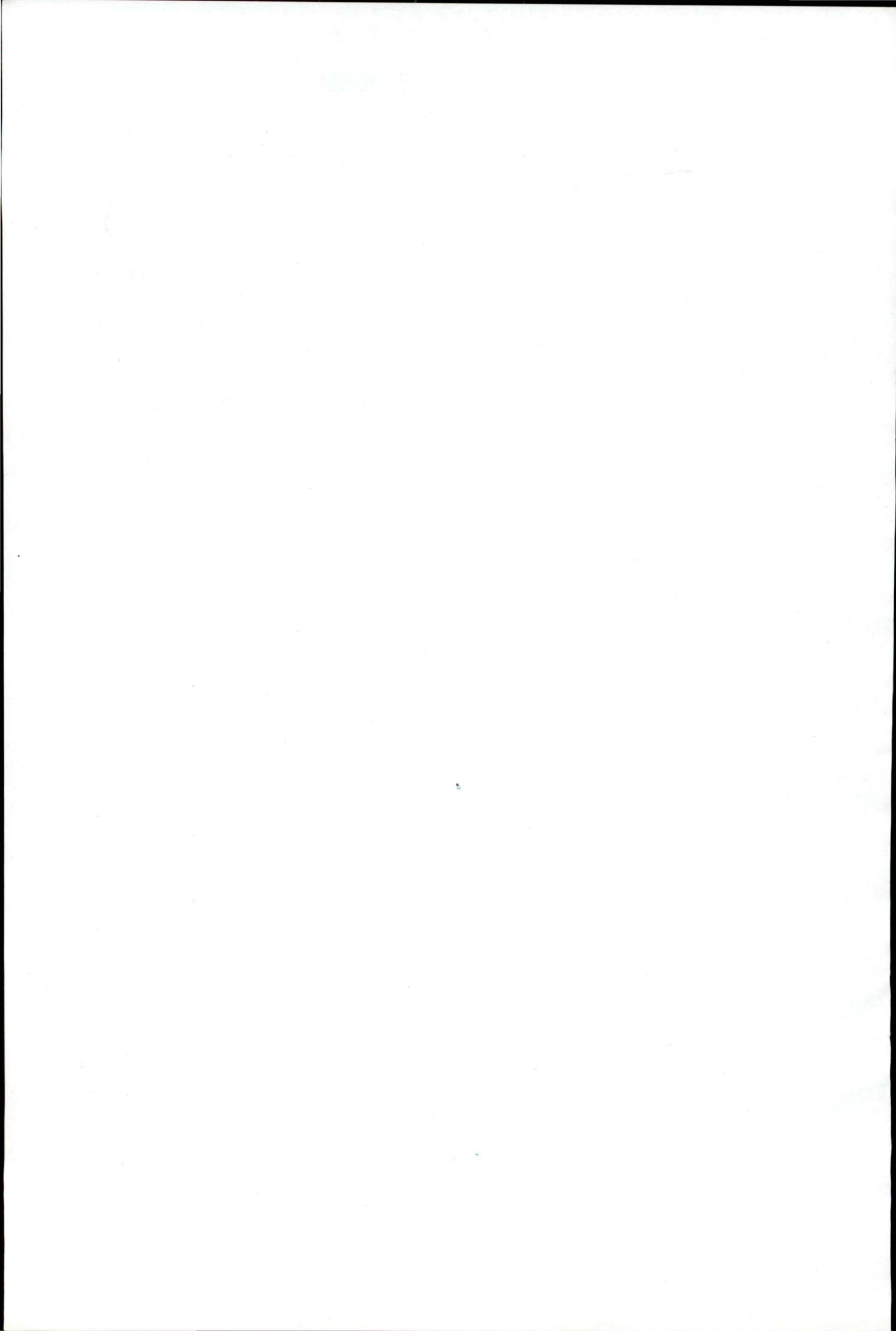
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PREFACE

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 and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising taxes on sales, trade etc./value added tax, taxes on vehicles, state excise, stamp duty and registration fees, land revenue and non-tax receipts of the State.

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



OVERVIEW

This Report contains 31 paragraphs including three performance audit relating to non/short levy of taxes, duties, interest and penalty etc., involving Rs.72.12 crore. Some of the major findings are mentioned below:

I. General

The total receipts of the State Government for the year 2010-11 were ₹ 27,608.47 crore. Revenue raised by the Government during the year was ₹ 22,158.35 crore, comprising tax revenue of ₹ 16,828.18 crore and non-tax revenue of ₹ 5,330.17 crore. The State Government also received ₹ 3,050.87 crore as State's share of divisible Union taxes and ₹ 2,399.25 crore as grants-in-aid from the Government of India.

(Paragraph 1.1.1)

Tax revenue in the year 2010-11 showed an increase of 39.77 *per cent* over 2009-10. Sales tax/VAT receipts of ₹ 10,016.91 crore amounted to 59.52 *per cent* of the tax revenue collected during the year 2010-11.

(Paragraph 1.1.2)

Non-tax revenue showed a decrease of 5.71 *per cent* in the year 2010-11 over 2009-10.

(Paragraph 1.1.3)

6,031 Inspection Reports issued upto December 2010 containing 11,330 audit observations with money value of ₹ 6,822.66 crore were outstanding for want of final replies from the departments as on 30 June 2011.

(Paragraph 1.2.1)

During test check of records of the taxes on sales, trade etc., taxes on vehicles, state excise, stamp duty and registration fees, land revenue and other departmental receipts conducted during year 2010-11, we noticed under assessments, short/non-levy, loss of revenue etc. amounting to ₹ 181.61 crore in 7,091 cases. During the year the departments accepted audit observations involving ₹ 30.15 crore in 2,649 cases and collected ₹ 7.01 crore in 354 cases pertaining to the audit findings during the year and previous years.

(Paragraph 1.5.1)

II. Sales Tax/Value Added Tax

A review of '**Utilisation of declaration forms in Inter State Trade**' and other paragraphs revealed the following:

The TINXSYS website was not used by the Department for verification of Declaration Forms (Form C/F) due to non loading of the data on the website.

(Paragraph 2.12.6)

Grant of exemption on branch transfer on the basis of fake F forms has resulted in tax foregone of ₹ 10.82 lakh, which needs to be recovered from the dealers concerned alongwith penalty.

(Paragraph 2.12.8)

Our cross verification revealed acceptance of fake C forms on interstate sales made by dealers to Delhi dealers involving tax of ₹ 19.14 lakh which needs to be recovered.

(Paragraph 2.12.9)

There were instances of grant of exemptions without the declarations in Form 'F' leading to non levy of tax of ₹ 4.23 crore.

{Paragraph 2.12.11 (a)}

Grant of exemptions on branch transfer on the basis of defective 'F' form resulted in non-levy of tax of ₹ 7.80 crore.

{Paragraph 2.12.11 (b)}

Grant of concessional rate of tax on inter state sale on the basis of defective 'C' form resulted in short levy of tax of ₹ 22.65 crore.

{Paragraph 2.12.12 (a)}

Grant of concessional rate of CST without the support of declarations in form C resulted in short levy of tax of ₹ 8.31 crore.

{Paragraph 2.12.12(b)}

Compliance Deficiencies on Implementation of State VAT/Sales Tax Acts

Due to non consideration of entry tax for apportionment on account of branch transfer and manufacture and sales of tax free goods, there was short reversal of ITC of ₹ 1.62 crore on Input Tax Credit (ITC).

{Paragraph 2.14.1.1(a)}

There was excess allowance of refund mainly due to non consideration of entry tax for apportionment on account of branch transfer and manufacture and sale of tax free goods ₹ 1.63 crore

{Paragraph 2.14.1.1(b)}

There was excess allowance of refund ₹ 1.36 crore due to claim of inadmissible input tax credit on account of entry tax by exempted unit.

(Paragraph 2.14.2)

There was excess allowance of refund of ₹ 69.22 lakh due to utilisation of notional ITC for discharge of output tax liability.

(Paragraph 2.14.2.3)

There was excess allowance of exemption ₹ 1.36 crore due to non/short levy of notional output tax on branch transfer and application of incorrect rate of tax.

(Paragraph 2.14.3)

There was non levy of tax ₹ 35.53 lakh on the sale of poultry feed supplements a taxable goods, treating it as tax free goods.

(Paragraph 2.14.5)

III. Taxes on Vehicles

A Performance audit on '**Computerisation in the Motor Vehicle Department**' and other paragraphs revealed the following:

Computerisation of the VAAHAN and SARATHI in Punjab was achieved in 19 and 13 DTOs and 30 and 26 SDMs, out of 20 DTOs and 52 SDMs respectively, due to delay as well as lack of systematic approach in procurement, establishment and implementation of the system in all the districts/Sub-Divisions. None of the DTOs of the State except DTO, Ropar in total and DTO Mohali in parts had digitized the old records related to VAHAN. Similarly none of the DTOs of the State had digitised the old records related to SARATHI. However, this work was assigned afresh and was undertaken by the BOOT (Build Own Operate and Transfer) operator from 20 July 2011 for the entire State.

(Paragraphs 3.9.7, 3.9.7.1 and 3.9.7.2)

Absence of IT Policy and documentation and lack of change management control as well as non-preparation of Business Continuity Planning have exposed the system to risk.

(Paragraphs 3.9.7.3, 3.9.7.4)

Plying of vehicles with lapsed registration, non-mapping of rule for calculation of fine on late registration of vehicles raised serious concern about the integrity and reliability of the system. Delay in updation of rates in the system led to short recovery of tax.

(Paragraphs 3.9.8.1 and 3.9.8.2, 3.9.8.4)

Inadequate validation checks in VAHAN resulted in registration of vehicles with identical chassis and engine number and registration of two or more vehicles with same insurance cover note, short recovery of registration fee as seen in 830 cases in five DTOs.

(Paragraph 3.9.10.1, 3.9.10.3 and 3.9.10.4)

Missing receipt numbers in VAHAN, generation of fake receipts led to manipulation of process of registration of vehicles for generating registration number as per choice of the applicant without charging the prescribed fee for choice number.

(Paragraphs 3.9.10.7 and 3.9.10.8)

Lack of Physical and logical access controls alongwith appropriate system of segregation of duties and non-provision of Audit Trail diluted the responsibility and accountability of officials apart from monitoring of the system.

(Paragraphs 3.9.10.10 and 3.9.10.11)

Missing receipt numbers in SARATHI raised serious concerns about the reliability of the system.

(Paragraphs 3.9.11.2)

Due to deficiency in input controls in SARATHI, we found some instances issuance of driving licences to those who did not possess the minimum educational qualification and minimum age.

(Paragraph 3.9.11.1, 3.9.11.3)

Compliance Deficiencies on Taxes on Vehicles

Misappropriation of Government receipts of ₹ 15.55 lakh was noticed in six offices of the Transport Department due to tampering the counterfoil of the receipt and non-depositing the receipt in treasury.

(Paragraph 3.11.1)

There was non/short realisation of motor vehicle tax of ₹ 59.72 lakh in seven DTOs, one RTA and STC office in respect of School/College buses and RSRTC buses.

(Paragraph 3.11.3)

IV. State Excise

A Stand Alone Report titled, 'Working of State Excise Department' is attempted separately

V. Stamp Duty and Registration Fees

There was misappropriation of Government dues of ₹ 19.74 lakh on account of stamp duty and registration fee on the sale of immovable property by applying lower value of properties, short totaling of cash, non taking of cash in Cash Book etc.

(Paragraph 5.10.1)

Non/short levy of stamp duty and additional stamp duty due to irregularly exemption allowed by the Sub-Registrars ₹ 64.66 lakh

(Paragraph 5.10.3)

VI. Other Tax/Non tax receipts

A review on 'Interest Receipts from Loans and Advances granted by the State Government' revealed the following:

The outstanding loans as on 31 March 2011 stood at ₹ 2,323.84 crore. Finance Department did not have records of details of the outstanding loans as on 31 March 2011.

(Paragraph 6.2.8)

Outstanding recovery of ₹ 35.67 crore as on 31 March 2011 from two Administrative Departments (Co-operation and Housing and Urban Development) in respect of 15 loans was not realised.

{Paragraph 6.2.9 (a)}

Non-repayment of part of loan, interest and penal interest by Agriculture and Housing and Urban Development departments from the total loan of ₹ 18 crore are still unrecovered despite being pointed out in earlier Reports of the Comptroller and Auditor General of India

{Paragraph 6.2.9 (b)}

Irrigation Department sanctioned loans of ₹ 18.10 crore in 23 cases between June 1979 and March 1990 and the loans are still unrecovered despite being pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Punjab

{Paragraph 6.2.9 (c)}

Three departments did not prescribe the terms and conditions in 63 loan cases of ₹ 378.97 crore sanctioned between August 1983 and February 2009

(Paragraph 6.2.10)

Department of Agriculture did not recover interest of ₹ 36.18 crore due at the time of conversion of loans into Grant-in-aid

(Paragraph 6.2.12)

None of the test checked departments except (the Co-operations) had maintained prescribed records, though loans of ₹ 198.99 crore were disbursed to these departments.

(Paragraph 6.2.14.1)

Land Revenue

Non-compliance of the Land Revenue Rules and Government instructions resulted in non-realisation of service charges of ₹ 6.05 lakh.

(Paragraph 6.4)

Department of Agriculture

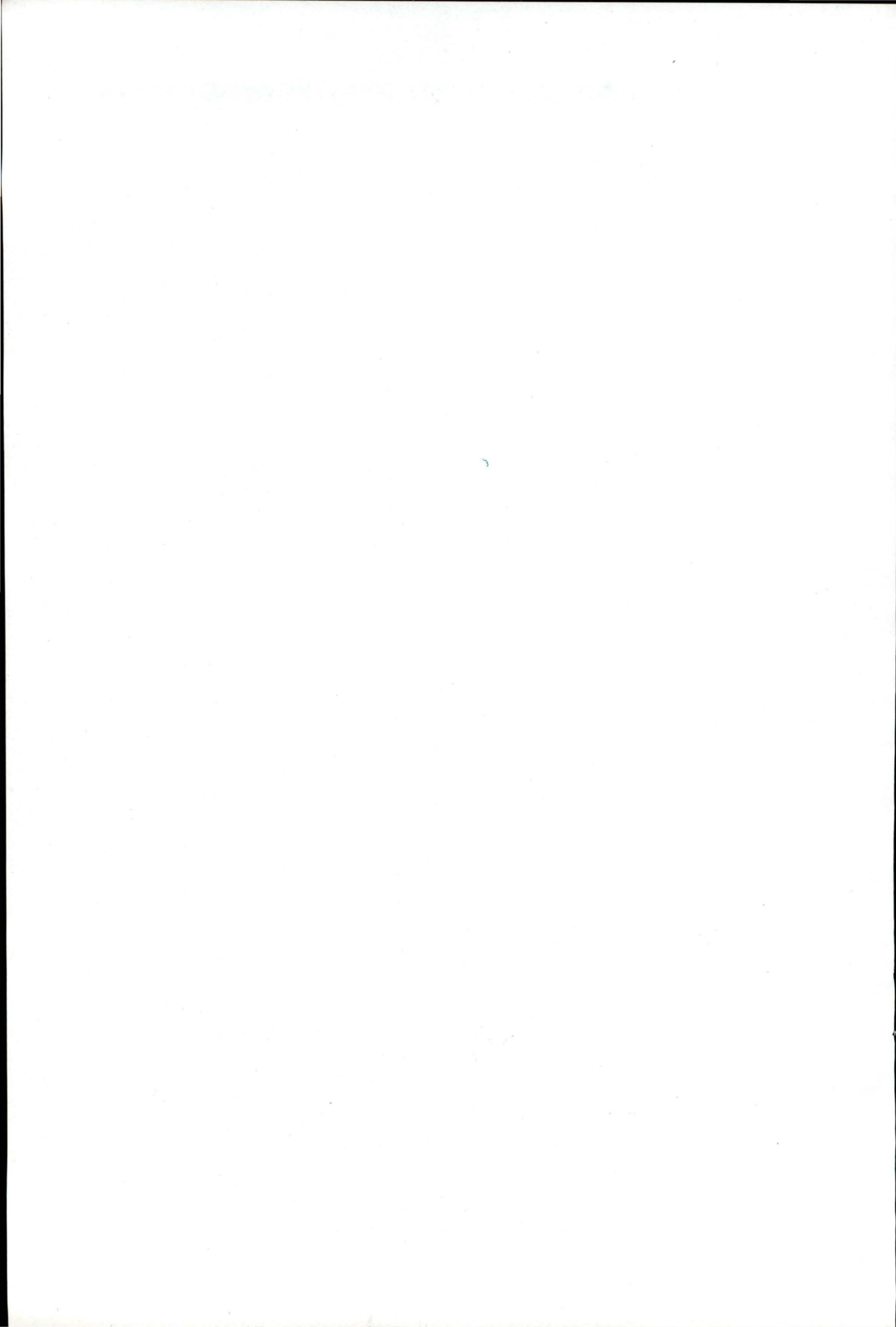
Non-recovery of guarantee fee in contravention of condition lay down by the Government governing the sanction for guarantee resulted in non-realisation of ₹ 12.34 crore

(Paragraph 6.5)

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EXECUTIVE SUMMARY- CHAPTER I

Overall increase in the Government receipts	In 2010-11, there was an increase of 39.77 <i>per cent</i> in tax revenue whereas in the non-tax receipts there was a decrease of 5.71 <i>per cent</i> when compared to the previous year. The reasons for decrease in the non tax receipts were mainly attributed to the discontinuance of certain lottery scheme due to the implementation of the Central Government Lottery Regulation Rules-2010.
Failure of the Senior official to enforce accountability and protect interest of the Government	The inspection reports issued upto December 2010 disclosed that 11,330 paragraphs involving ₹ 6822.66 crore relating to 6031 IRs remained outstanding as on 30 June 2011. Even the first replies required to be received from the heads of the offices within one month from the date of issue of IRs were not received for 173 IRs issued upto December 2010. The large pendency of IRs/Paragraphs is indicative of the fact that the Heads of the offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed by audit in IRs.
Department audit committee meetings	In five Audit Committee Meetings in respect of State Excise, Forest and Wild life and Director of State Lotteries held during 2010-11, 333 paragraphs involving ₹ 31.97 crore were settled. However, other departments did not come forward to hold the Audit Committee Meeting for expeditious settlement of the outstanding audit observations.
Non-productions of records of audit scrutiny	During 2010-11 as many as 360 assessments files, returns, refunds, register and other records were not made available to audit.
Results of audit	<p>Test check of the records of 331 units of Sales tax/VAT, State Excise, Motor Vehicle Tax, Stamp duty and Registration fee, Electricity duty, other tax and non-tax receipts offices conducted during 2010-11 revealed under assessment/short levy/loss of revenue aggregating ₹ 181.61 crore in 7,091 cases. The Departments have accepted under assessments and other deficiencies of ₹ 30.15 crore in 2,649 cases during the year and collected ₹ 7.01 crore in 354 cases pertaining to audit finding of the previous years.</p> <p>This report contains 28 paragraphs and three Performance Audit Reports involving financial effect of ₹ 72.12 crore, out of which audit observations of ₹ 51.36 crore were accepted by the Government and a recovery of ₹ 95 lakh was also made in respect of these audit observations.</p>



CHAPTER-I

General

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Punjab 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	9,017.16	9,899.17	11,150.19	12,039.48	16,828.18
	• Non-tax revenue ¹	7,744.58 (5,699.85)	5,253.97 (1,787.80)	5,783.91 (2,264.36)	5,652.70 (1,659.29)	5,330.17 (1,531.88)
	Total	16,761.74 (14,717.01)	15,153.14 (11,686.97)	16,934.10 (13,414.55)	17,692.18 (13,698.77)	22,158.35 (18,360.06)
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	1,565.75	1,974.99	2,084.01	2,144.10	3,050.87
	• Grants-in-aid	2,239.65	2,109.49	1,694.68	2,320.30	2,399.25
	Total	3,805.40	4,084.48	3,778.69	4,464.40	5,450.12
3.	Total receipts of the State Government (1 and 2)	20,567.14	19,237.62	20,712.79	22,156.58	27,608.47²
		(18,522.41)	(15,771.45)	(17,193.24)	(18,163.17)	(23,810.18)
4.	Percentage of 1to 3	81	79	82	80	80

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 22,158.35 crore) was 80 per cent of the total revenue receipts (₹ 27,608.47 crore). The increase in tax revenues was 40 per cent over the previous year, whereas the non-tax revenues decreased by six per cent. The balance 20 per cent of the receipts during 2010-11 was received from the Government of India.

¹ The figures shown in brackets in the chapter are net of expenditure on prize winning tickets of lotteries conducted by the Government.

² For details please see statement number 11-Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Punjab for the year 2010-11. Figures under the head 0021- Taxes on income other than corporation tax-share of net proceeds assigned to States booked in the Finance Accounts under A – Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period from 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.	VAT ³ / Sales tax	4,503.31	5,014.50	6,166.46	7,264.31	9,642.42	(+) 32.74
	Central sales tax	325.71	327.99	269.17	313.18	374.49	(+) 19.58
2.	State excise	1,367.79	1,861.52	1,809.95	2,100.92	2,373.07	(+) 12.95
3.	Stamp duty and registration fees	1,803.93	1,567.84	1,730.29	1,550.94	2,318.46	(+) 49.49
4.	Taxes and duties on electricity	527.58	603.80	631.33	230.13	1,422.90	(+) 518.30
5.	Taxes on vehicles	468.05	499.45	524.09	554.74	653.91	(+) 17.88
6.	Other taxes and duties on commodities and services	5.52	6.76	3.46	9.95	23.69	(+) 138.09
7.	Land revenue	15.27	17.31	15.44	15.31	19.24	(+) 25.67
	Total	9,017.16	9,899.17	11,150.19	12,039.48	16,828.18	(+) 39.77

The following are the reasons for increase in receipts during 2010-11 over those of 2009-10, as stated by some of the departments:

Taxes and duties on electricity: The increase of 518.30 *per cent* during the year 2010-11 over the year 2009-10 is due to 3 *per cent* increase in the rate of Electricity duty (13 *per cent* from 10 *per cent*), and recovery of arrears of previous years during the current year.

Stamp duty and Registration Fees: The increase of 49.49 *per cent* during the year 2010-11 over the year 2009-10 is attributed to the fact that during the year 2009-10 there was global recession and due to it sale/purchase of properties was less in 2009-10.

Taxes on vehicles: The increase of 17.88 *per cent* during the year 2010-11 is attributed to the best efforts of the Department and better fiscal management.

The other departments did not intimate (December 2011) the reasons for variations in receipts from that of the previous year.

³ Value Added Tax (VAT) with effect from 1 April 2005.

1.1.3 The following table presents the details of the major non-tax revenue raised by the State 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.	Interest receipts	658.57	348.78	181.98	164.69	169.37	(+) 2.84
2.	Dairy development	0.12	0.09	0.09	0.08	0.10	(+) 25.00
3.	Other non-tax receipts	509.28	441.62	760.97	486.88	559.19	(+) 14.85
4.	Forestry and wild life	14.62	14.70	15.52	26.47	12.52	(-) 52.70
5.	Non-ferrous mining and metallurgical industries	12.72	16.03	37.07	37.99	61.98	(+) 63.15
6.	Miscellaneous general services (including State lotteries)	6,386.49	4,189.72	4,567.80	4,780.12	4277.23	(-) 10.52
7.	Major and medium irrigation	20.14	20.02	11.85	34.62	29.60	(-) 14.50
8.	Medical and public health	42.82	48.12	47.63	45.13	71.88	(+) 59.27
9.	Co-operation	5.02	4.60	4.55	3.73	3.50	(-) 6.17
10.	Public works	12.26	16.83	17.52	22.60	21.30	(-) 5.75
11.	Police	36.68	44.71	58.58	51.88	61.89	(+) 19.29
12.	Other administrative services	45.86	108.75	80.35	-1.49	61.61	(+) 4234.90
	Total	7,744.58	5,253.97	5,783.91	5,652.70	5,330.17	(-) 5.71
		(5,699.85)	(1,787.80)	(2,264.36)	(1,659.29)	(1531.88)	(-) 7.68

The following are the reasons for increase/decrease in receipts during 2010-11 over those of 2009-10, as stated by some of the departments:

Miscellaneous General Services (including State lotteries): The decrease of 10.52 per cent in 2010-11 is because of discontinuance of certain lottery schemes due to implementation of Central Government Lottery (Regulation) Rules-2010 from April, 2010.

Non-ferrous mining and metallurgical industries: The Increase of 63.15 per cent during the year 2010-11 was due to the fact that during the year 2010-11, 366 khad (mines) were auctioned for six months for ₹ 39 crore and these were again extended for four months for ₹ 24 crore approximately.

The other departments did not intimate (December 2011) the reasons for variations in receipts, despite being requested repeatedly.

1.2 Response of the Government departments towards audit

- Annotated replies to the audit observations are to be submitted by the Government departments/auditee to the office of the Principal Accountant General within one month from the date of issue of Inspection Reports.
- In case the annotated replies to the audit observations contained in the Inspection Reports are satisfactory and the documents enclosed are duly attested by the competent authority, the observations are recommended for settlement after verification of the documents.
- The audit observations are to be settled during the Audit Committee meetings, if the reply of the Department is satisfactory.
- If the audit observations are subjudiced, the observations remain pending till decision of the courts.
- At the time of next audit, rest of the audit observations are reviewed by the audit party at length and after verification of the records they are recommended for settlement.

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

The Principal Accountant General (Audit) Punjab (PAG) conducts periodical inspection of the Government departments to test check the transactions and verify maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed with the inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of 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 to rectify the defects and omissions and report compliance through initial reply to the PAG 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.

Inspection reports issued upto December 2010 disclosed that 11,330 paragraphs involving ₹ 6,822.66 crore relating to 6,031 IRs remained outstanding at the end of June 2011 as mentioned below.

	June 2009	June 2010	June 2011
Number of outstanding IRs	4,494	4,628	6,031
Number of outstanding audit observations	9,227	9,650	11,330
Amount involved (₹ in crore)	3,223.30	3,792.89	6,822.66

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned below.

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Department of Finance	Taxes/VAT on sales, trade etc.	2179	3883	358.69
		Electricity duty	19	79	5,092.98
		Entertainments Tax, etc.	318	469	22.07
2.	Office of the Excise and Taxation Commissioner, Excise	State Excise	388	490	349.83
3.	Revenue and Rehabilitation	Land Revenue	791	1490	35.96
4.	Transport	Taxes on motor vehicles	811	2501	531.76
5.	Stamps and Registration	Stamp duty and registration fee	1314	1971	134.35
6.	Forest and environment	Forestry and wild life	172	371	161.23
7.	Director of Lotteries	State Lotteries	39	76	135.79
Total			6,031	11,330	6,822.66

Even the first replies required to be received from the heads of offices within one month from the date of issue of IRs were not received for 173 IRs issued upto December 2010. The large pendency of IRs due to non-receipt of replies is indicative of the fact that the Heads of the offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Audit in the IRs.

It is recommended that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to the audit observations as well as taking action against the officers who failed to send replies to the IRs within the prescribed time schedule and failed to take action to recover the loss/outstanding dues.

1.2.2. Departmental Audit Committee Meetings

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

Head of Revenue	Number of meetings held	Number of paragraphs settled	(₹ in crore)
			Amount
Taxes/VAT on sales, trade etc.	3	258	10.62
Electricity duty	-	-	-
Entertainments Tax, etc.	-	-	-
State Excise	-	-	-
Land Revenue	-	-	-
Taxes on motor vehicles	-	-	-
Stamp and registration fee	-	-	-
Forestry and wild life	1	53	6.29
State Lotteries	1	22	15.06
Total	5	333	31.97

In five audit committee meetings in respect of State Excise, Forestry and Wild Life and Directorate of Lotteries held during the year 2010-11, 333 outstanding paras involving ₹ 31.97 crore were got settled. However, the other departments did not come forward to hold the audit committee meetings for expeditions settlement of the outstanding audit observations.

1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of Tax revenue/Non-Tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11 as many as 360 assessment files, returns, refunds, registers and other relevant records were not made available to audit. The tax effect could not be computed. Break up of the cases are given below:

Name of Office	Year in which it was to be audited	(₹ in lakh)
		Number of cases not audited
Taxes/VAT on sales, trade etc.	2010-11	63
Entertainments Tax, etc.	2010-11	12
Excise	2010-11	2
Land Revenue	2010-11	24
Transport	2010-11	145
Stamps and registration	2010-11	93
Forest and environment	2010-11	21
Total		360

1.2.4 Response of the departments to the draft audit paragraphs

On the recommendation of the Public Accounts Committee (PAC), the Department of Finance issued directions to all the departments in October 1967 to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. The draft paragraphs are forwarded by the audit office to the Secretaries of the Departments concerned through demi official letters

drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the Government is invariably indicated at the end of each paragraph included in the Audit Report.

31 paragraphs/reviews 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 May 2011 and November 2011 through demi official letters. Replies to 24 of the paragraphs have not been received.

1.2.5 Follow up on the Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt in the various audit reports, the Department of Finance issued instructions in August 1992 to initiate *suo moto* action on all paragraphs/reviews figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the PAC or not. Out of 217 paragraphs/reviews included in Audit Reports relating to the period 2004-05 to 2009-10, which had already been laid before the State Legislature, action taken notes (ATNs) in respect of 116 paragraphs/reviews were not received as on June 2011 even after the lapse of the prescribed period of three months. The outstanding ATNs date back to 2004-05 as mentioned below:

Year of Report	Date of presentation of Audit Report to the legislature	No. of paragraphs/ reviews included in the Audit Reports	No. of paragraphs/ reviews on which ATN were due from the departments
2004-05	13 March 2006	25	7
2005-06	29 March 2007	30	7
2006-07	12 March 2008	32	12
2007-08	4 March 2009	49	20
2008-09	15 March 2010	50	39
2009-10	11 March 2011	31	31
Total		217	116

1.2.6 Compliance with the earlier Audit Reports

During the years between 2005-06 and 2009-10, the departments/Government accepted audit observations involving ₹ 117.55 crore, out of which an amount of ₹ 8.89 crore was recovered till 31 March 2011 as mentioned below:

Sl. No.	Year of Audit Report	Total money value	Accepted money value	Recovery made
1	2005-06	245.62	4.10	3.75
2	2006-07	197.96	2.90	1.92
3	2007-08	352.33	35.46	2.82
4	2008-09	218.15	42.58	0.33
5	2009-10	94.52	32.51	0.07
Total		1,108.58	117.55	8.89

The Government may issue appropriate instructions to the concerned departments to make recovery in the accepted cases.

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

The succeeding paragraphs 1.3.1 to 1.3.2 discuss the performance of the Chief Electrical Inspector, Patiala to deal with 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 2010-11.

- There is no Audit Committee set up by the CEI and hence no audit committee meetings were held by the Department.
- At the level of Principal Accountant General half yearly reminders are issued to the Government/Department intimating list of the outstanding paragraphs in Inspection Reports and Audit Reports asking them to take necessary steps for their early settlement

1.3.1 Position of Inspection Report

The summarised position of inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 30 June 2011 are tabulated below:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing during the year		
	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
2001-02	9	11	77.53	1	3	261.59		1	258.10	10	13	81.02
2002-03	10	13	81.02	1	1	380.26		3	0.78	11	11	460.50
2003-04	11	11	460.50	1	6	27.78		1	202.74	12	16	285.54
2004-05	12	16	285.54	1	3	167.82		1	30.34	13	18	423.02
2005-06	13	18	423.02	1	11	1794.01		-	-	14	29	2,217.03
2006-07	14	29	2,217.03	1	11	154.30		8	868.11	15	32	1,503.22
2007-08	15	32	1,503.22	1	08	170.40		-	-	16	40	1,673.62
2008-09	16	40	1,673.62	1	09	349.00		-	-	17	49	2,022.62
2009-10	17	49	2,022.62	1	30	2,342.98		8	318.03	18	71	4,047.57
2010-11	18	71	4,047.57	1	08	1,045.41		-	-	19	79	5,092.98

We observed that the number of IRs/Paras had increased from 15/32 involving ₹ 1,503.22 crore in 2006-07 to 19/79 involving ₹ 5,092.98 crore in 2010-11. The ever increasing tendency reflects the poor action taken by the Department.

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

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports since 2002-03, those accepted by the Department and the amount recovered are mentioned below:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2002-03	3	180.87	2 Para accepted	177.52	-	Para 5.2 of 2002-03 involving ₹ 118.16 crore. (Pertains to Government Departments) was adjusted but concurrence of Finance Department is awaited
				1.72	-	awaited.
2003-04	Nil	-	-	-	-	-
2004-05	1	21.06	Accepted	21.06		Money was deposited in 2005-06
2005-06	1	35.20	Not Accepted	-	-	-
2006-07	Nil	-	-	-	-	-
2007-08	2	103.47	1 Accepted	82.28	-	Out of ₹ 82.28 crore an amount of ₹ 58.52 crore pertains to court cases and rest of the amount stand recovered during 2008-09 and 2009-10
	1 Review	149.88	Not accepted	-	-	-
2008-09	1	25.46	Not accepted	-	-	-
2009-10	Nil	-	-	-	-	-
Total	9	515.94	3	282.58		

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

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

The following table/paragraph discusses the issues highlighted in the reviews on the “**Chief Electrical Inspector**” featured in the last 10 Audit Reports.

Year of Audit Report	Name of the Review	Number of recommendations	Details of the recommendations accepted	Status
2001-02 } 2002-03 } 2003-04 } 2004-05 } 2005-06 } 2006-07 }	Nil			
2007-08	Levy of collection of electricity duty	4	Accepted	applied
2008-09 } } 2009-10 }	Nil			

Although the Department accepted all the four recommendations, contained in the Audit Report for the year 2007-08, scrutiny of the records revealed that out of four recommendations, two recommendations had been implemented by the Department. Remaining two recommendations regarding periodical inspections of electrical establishments to ensure safety to the human being and animals and strengthening of Internal Audit had not been implemented by the Department. The Department stated that at the time of passing new electrical establishments, all the safety measures are reviewed and shortcomings are got made up from the concerned quarter.

1.4 Audit planning

The unit offices under various departments are categorised into high, medium and low risk units according to their revenue earning, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter-alia include critical issues in Government revenues and tax administration i.e. budget speech, reports of the finance commission (state and central), recommendations of the taxation reforms committee; statistical analysis of the revenue earnings during the past 5 years, features of the tax administration, audit coverage and its impact during past 5 years etc..

During the year 2010-11, there were 600 auditable units, of which 332 units were planned for audited, which is 55.33 *per cent* of the total auditable units. The details are shown in the annexure.

Besides the compliance audit, two performance audits were also taken up to examine the efficacy of tax administration of the receipts concerned.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

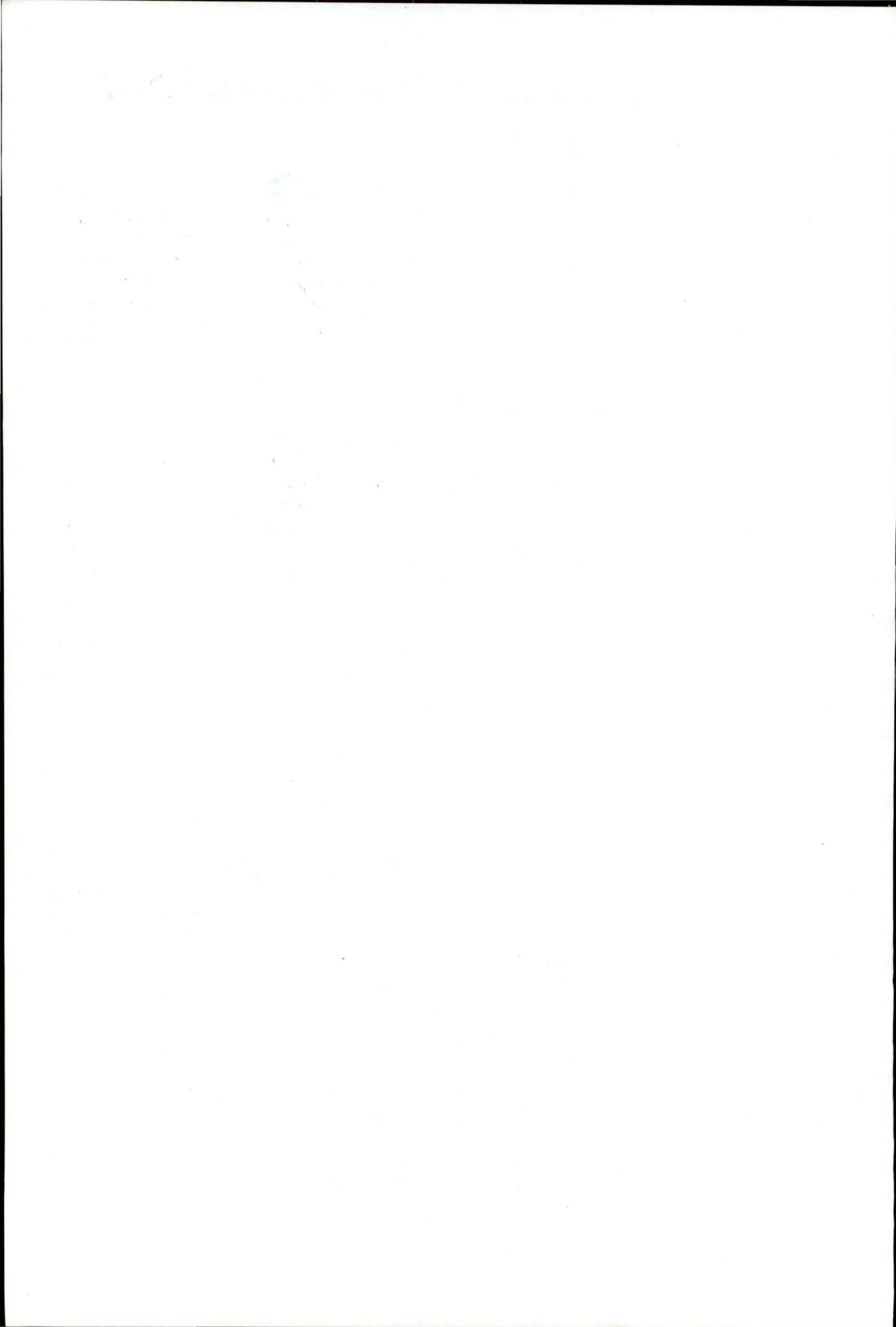
Test check of the records of 332⁴ units of sales tax, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax and non-tax receipts offices conducted during the year 2010-11 revealed under assessment/short levy/loss of revenue aggregating ₹ 181.61 crore in 7,091 cases. During the course of the year, the Departments accepted under assessment and other deficiencies of ₹ 30.15 crore involved in 2,649 cases. The Departments collected ₹ 7.01 crore in 354 cases pertaining to the audit finding of previous years.

1.5.2 This Report

This Report contains 28 paragraphs and three performance audits on 'Utilisation of declaration forms in Inter State trade', IT review on 'Computerisation in the Transport Department' and 'Interest Receipts on Loan and Advances', involving financial effect of ₹ 72.12 crore.

The Departments/ Government have accepted audit observations involving ₹ 51.36 crore out of which ₹ 95 lakh have been recovered. The replies in remaining cases have not been received (October 2011). These are discussed in the succeeding chapters II, III, V and VI.

⁴ The audit of one unit could not be conducted being closed unit.



EXECUTIVE SUMMARY- CHAPTER - II

Increase in the tax collection	In 2010-11 the collection of tax (VAT) on sales & trade etc increased by 32.19 <i>per cent</i> over the previous year.
Recovery by the Department of observations pointed out by us in earlier years	During the period 2005-06 to 2009-10 we had pointed out non/short levy, non/short realisation, under assessment/suppression of turnover and application of incorrect rate of tax etc., with revenue implication of ₹ 291.01 crore in 1322 cases. The Department/Government accepted the audit observations in 185 cases involving ₹ 5.59 crore and recovered ₹ 6.15 crore pertaining to the audit finding of previous years.
Internal audit not conducted	Internal audit is intended to examine and evaluate the level of compliance with rules and procedure. Effective internal audit system both in the manual as well as computerised environment are a pre-requisite for the efficient working of any Department. However, no internal audit wing existed in the Department.
Results of audit conducted by us during 2010-11	<p>In 2010-11 we test checked the records of 42 units relating to tax on Sales Trade etc and found underassessment of tax and other irregularities involving ₹ 88.12 crore in 351 cases. The Department accepted audit observations involving ₹ 2.68 crore in four cases and recovered ₹ 1.71 crore in 117 cases pertaining to audit findings of previous years.</p> <p>In this chapter we present illustrative cases of ₹ 45.24 crore inclusive of Performance Audit report titled 'Utilisation of declaration forms in Inter State trade' selected from observations noticed during our test check of records relating to assessment and self assessed returns in the office of the Excise and Taxation Commissioner (ETC), Assistant Excise and Taxation Commissioners (AETCs), where we found that the provisions of Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omission have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action despite switching over on IT-enabled system in the whole Department. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.</p>
Our conclusion	<p>The Department needs to improve the Internal Control System including strengthening of internal audit so that weakness in the system are addressed and omission of the nature detected by us are avoided in future.</p> <p>It also needs to initiate immediate action to recover the non-realisation, under assessment of tax etc. pointed out by us, more so in those cases where it has accepted our contention.</p>

CHAPTER-II

Sales Tax/Value Added Tax

2.1 Tax administration

The Financial Commissioner Taxation and Principal Secretary to the Government of Punjab is overall in-charge of the Excise and Taxation Department. Subject to overall control and superintendence of the Excise and Taxation Commissioner (ETC), the administration of the PVAT Act/Central Sales Tax Act (CST Act), is carried out with the help of Additional Excise and Taxation Commissioner (Addl. ETC), Joint Excise and Taxation Commissioners at the headquarters (JETCs), Deputy Excise and Taxation Commissioners (DETCs) at the divisional level and Assistant Excise and Taxation Commissioners (AETCs), Excise and Taxation Officers (ETOs) and other allied staff at the district level. The authorities performing duties within jurisdictions as specified by the Government under the PVAT Act are called as Designated Officers (DOs).

2.2 Analysis of budget

Scrutiny of Budget records of the Department revealed that against the proposal of ₹ 8,625 crore submitted by the Department, the Finance Department fixed the Budget Estimates as ₹ 9,325 crore. This was subsequently revised to ₹ 10,000 crore. Against the Revised Budget Estimates of ₹ 10,000 crore, the actual receipts was ₹ 10,016.91 crore.

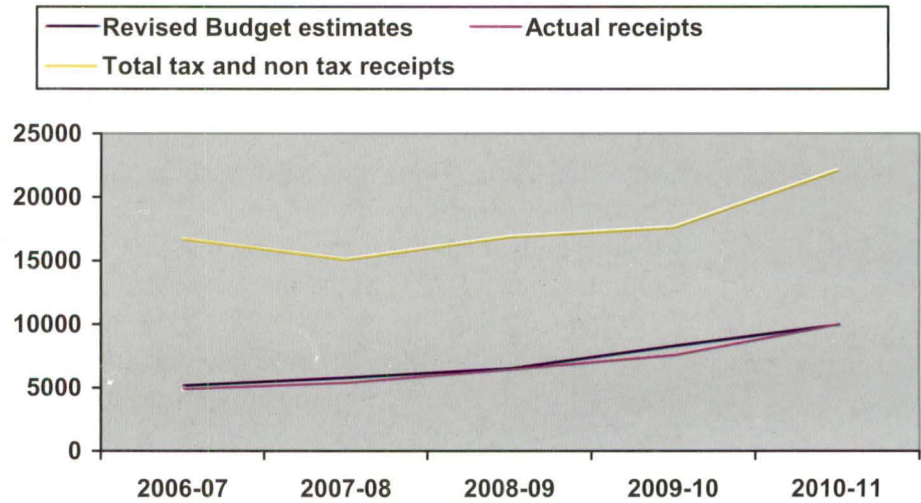
2.3 Trend of receipts

Actual receipts from Sales Tax/VAT during the last five years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table:

(₹ in crore)

Year	Revised Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax and non-tax receipts of the State	Percentage of actual VAT receipts vis-à-vis total tax and non tax receipts
2006-07	5,125.00	4,829.02	(-) 295.98	(-) 5.78	16,761.74	28.81
2007-08	5,778.00	5,342.49	(-) 435.51	(-) 7.54	15,153.14	35.26
2008-09	6,529.62	6,435.63	(-) 93.99	(-) 1.44	16,934.10	38.00
2009-10	8,320.00	7,577.49	(-) 742.51	(-) 8.92	17,692.18	42.83
2010-11	10,000.00	10,016.91	(+) 16.91	(+) 0.17	22,158.35	45.21

The trend of actual receipts vis-a-vis budget estimates is given in the following graph.



2.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 was ₹ 666.46 crore of which ₹ 375.98 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period from 2006-07 to 2009-10:

(₹ in crore)

Year	Opening balance of arrears	Addition	Amount collected during the year	Closing balance of arrears
2006-07	760.91	786.93	--	1,547.84
2007-08	1,547.84	486.78	--	2,034.62
2008-09	2,034.62	---	1,174.52	860.10
2009-10	860.10	--	484.12	375.98
2010-11	375.98	290.48	---	666.46

The above table shows that there was net clearance of ₹ 484.12 crore during 2009-10 but against this there was a net addition of ₹ 290.48 crore during the year 2010-11. This shows that arrear of revenue sharply increased in 2010-11 in comparison to 2009-10. The Government may take suitable steps to control this increasing trend of arrear of revenue.

2.5 Cost of VAT per assessee

(₹ in lakh)

Total no. of assessee as on 31-03-2011	Total expenditure on collection during the year 2010-11	Cost of per assessee
1	2	3
206518	10725	0.05

2.6 Arrears in assessments

The number of cases pending for assessment at the beginning of the year becoming due during the year, disposed during the year and pending at the end of each year during 2006-07 to 2010-11 as furnished by the Department in respect of sales tax/VAT are mentioned below:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year
2006-07	2,83,496	1,62,447	4,45,943	87,560	3,58,383
2007-08	3,58,383	—	3,58,383	30,460	3,27,923
2008-09	80,650	—	80,650	27,623	53,027
2009-10	53,027	—	53,027	12,968	40,059
2010-11	40,059	9,253	49,312	7,740	41,572 ¹

The closing balance of 2007-08 includes 2, 47,273 cases pertaining to VAT and there was no provision for regular assessment under PVAT Act 2005. Thus, the opening balance of 2008-09 depicts the sales tax cases only. Similarly the addition of 9,253 cases during the year 2010-11 pertains to VAT as all the assessments relating to PGST that had become due up to 2007-08 had already been depicted in the arrears of assessments.

The Government may issue strict instruction to dispose these cases.

2.6.1 Tax Audit

The number of cases selected for tax audit, tax audit completed, tax audit completed within the prescribed time, balance and revenue collection as a result of tax audit each year from 2008-09 to 2010-11 are mentioned below:

Year	No. of cases selected for Tax Audit	Tax audit completed	Tax audit completed within the prescribed time	(₹ in crore)	
				Balance	Revenue collected
2008-09	124	72	72	52	2.40
2009-10	210	181	181	29	2.10
2010-11	429	419	419	10	16.45
Total	763	672	672	91	20.95

2.7 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2006-07 to 2010-11 alongwith the relevant all India average percentage of expenditure on collection are mentioned below:

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	(₹ in crore)
					All India average percentage over the previous year
Taxes/VAT on sales, trade etc.	2006-07	4,829.02	41.78	0.87	0.91
	2007-08	5,342.49	45.81	0.86	0.82
	2008-09	6,435.63	48.53	0.75	0.83
	2009-10	7,577.49	59.83	0.79	0.88
	2010-11	10016.91	107.25	1.07	0.96

¹ PGST assessment case = 32,319 and VAT assessment = 9,253

There was an increase in cost of collection in 2010-11 of 0.28 per cent as compared to the percentage for the year 2009-10. The reasons of variations were called for from the Department and the reply is awaited (October 2011).

2.8 Analysis of collection

The breakup of the total collection at pre assessment stage and after regular assessment of VAT/sales tax, for the year 2010-11 and the corresponding figures for the preceding four years furnished by the Department is mentioned below:

(₹ in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per Department	Net collection as per Finance Account	Percentage of column 3 to 8
1	2	3	4	5	6	7	8	9
Taxes/ VAT on sales, trade etc.	2006-07	4,967.60	37.08	3.25	220.05	4,787.88	4,829.02	102.87
	2007-08	6,128.94	49.04	14.15	320.84	5,871.29	5,342.49	114.72
	2008-09	7,397.86	14.67	4.27	373.80	7,043.00	6,435.63	114.95
	2009-10	8,634.88	20.76	4.15	375.66	8,284.13	7,577.49	113.95
	2010-11	7,740.05	144.70	201.10	479.43	7,606.42	10,016.91	77.27
Total		266.25	226.92	1769.78	33,592.72	34,201.54		

2.9 Impact of audit reports

2.9.1 Revenue impact

During the last five years, Audit through its Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 291.01 crore in 1,322 cases. Of these, the Department/Government had accepted audit observations in 185 cases involving ₹ 5.59 crore and recovered ₹ 6.15 crore in 315 cases. The details are shown in the following table:

(₹ in crore)

Year	Number of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	239	399	52.86	75	1.24	44	0.81
2006-07	242	241	14.08	29	0.88	31	0.61
2007-08	88	230	133.50	59	0.34	63	0.67
2008-09	138	295	35.02	18	2.07	29	0.38
2009-10	87	157	55.55	04	1.06	148	3.68
Total	794	1,322	291.01	185	5.59	315	6.15

2.10 Working of internal audit wing

Internal audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the

efficient functioning of any Department. However, no internal audit wing exists in Department.

2.11 Results of audit

Test check of the records of 42 units relating to Sales tax/VAT during 2010-11 revealed underassessment of tax and other irregularities involving ₹ 88.12 crore in 351 cases which fall under the following categories:

			(₹ in crore)
Sl. No.	Categories	No. of cases	Amount
1.	Performance audit of Utilisation of Declaration Forms in the Inter State Trade'	1	45.24
2.	Loss of revenue due to excess refund of VAT	32	10.99
3.	Non/short levy of sales tax/VAT	139	18.52
4.	Incorrect grant of exemption from tax	13	4.40
5.	Excess/irregular claim of ITC	144	7.81
6.	Other irregularities	22	1.16
Total		351	88.12

During the year 2010-11, the Department accepted audit observations involving ₹ 2.68 crore in four cases and recovered ₹ 1.71 crore in 117 cases pertaining to the audit findings of previous years.

A few illustrative audit observations involving ₹ 8.39 crore and a performance Audit of '**Utilisation of Declaration Forms in the Inter State Trade'** with financial impact of ₹ 45.24 crore are discussed in the following paragraph.

2.12 Performance Audit on Utilisation of the Declaration Forms in Inter State trade

Highlights

- The TINXSYS website was not used by the Department for verification of Declaration Forms (Form C/F) due to non-loading of the data on the website.

(Paragraph 2.12.6)

- There was loss of revenue due to grant of exemption on branch transfer on the basis of fake F forms ₹ 10.82 lakh.

(Paragraph 2.12.8)

- Our cross verification revealed acceptance of fake C Forms on interstate sales made by dealers to New Delhi dealers involving tax of ₹ 19.14 lakh which needs to be recovered.

(Paragraph 2.12.9)

- There were instances of grant of exemptions without the declarations on Form 'F' leading to non-levy of tax of ₹ 4.23 crore.

{Paragraph 2.12.11 (a)}

- Grant of exemptions on branch transfer on the basis of defective 'F' forms resulted in non-levy of tax of ₹ 7.80 crore.

{Paragraph 2.12.11 (b)}

- Grant of concessional rate of tax on inter state sale on the basis of defective 'C' forms resulted in short levy of tax of ₹ 22.65 crore.

{Paragraph 2.12.12 (a)}

- Grant of concessional rate of CST without the support of declarations in form C resulted in short levy of tax of ₹ 8.31 crore.

{Paragraph 2.12.12 (b)}

2.12.1 Introduction

Under the Central Sales Tax Act, 1956, (CST Act) registered dealers are eligible to certain concessions and exemptions from tax on inter State transactions on submission of the prescribed declaration in Forms C, D, E-I, E-II and F (for concessional rate of tax on sale made to registered dealer and Government Department, for transit sale and branch transfer without payment of tax respectively). The State Governments grants these concessions to the dealers for furtherance of trade and commerce. It is the responsibility of the Excise and Taxation Department to ensure proper accounting of the declaration forms and to take adequate safeguards against mis-utilisation of the declaration forms. A Performance Audit (PA) was conducted by us to verify the issue, accounting and use of the declaration forms.

2.12.2 Audit Objectives

The Performance Audit was carried out to ascertain whether:

- there exists a foolproof system for custody and issue of the declaration forms;
- exemptions/concessions of tax granted by the assessing authorities were supported by the original declaration forms and
- appropriate steps were taken on detection of fake, invalid and defective declaration forms.

2.12.3 Scope and methodology of audit

The Performance Audit covered the assessments made under the CST Act completed between 2007-08 and 2010-11 in 14 districts² offices out of the 24 Excise districts in the State.

2.12.4 Acknowledgement

An entry conference was held with the Financial Commissioner, Taxation and Principal Secretary to Government of Punjab, Chandigarh at Chandigarh on 23 November 2010. During the conference, the objectives, scope and methodology of audit were explained. An exit conference was held with the Excise and Taxation Commissioner on 3 October 2011, wherein the audit findings were discussed. No written replies were furnished by the Department except in respect of two paragraphs. The replies received during the exit conference and at other points of time have been incorporated.

Audit findings

System deficiencies

2.12.5 Printing and custody of the declaration forms

To get the printing of the C, E-I, E-II and F forms from the India Security Press, Nasik, approval of the Administrative Department was sought first. The stock of these forms was reviewed from time to time as per requirement of the Department and the forms were got printed accordingly. A separate room was being used for custody of these forms and great care was given for the upkeep of these forms. A register was maintained in the Head office to issue these forms to the field offices and were dispatched by hand to the authorised persons against proper receipt. Every series of these forms issued was entered in the register and in a computer system and the issue and accounting of these forms were also entered in the proper registers at the district offices. We also noticed in the test checked districts that the DOs issued the declarations to the registered dealers after submission of periodical utilisation certificates. No discrepancy was noticed in the test checked districts in the accounting of the declarations i.e. issue and receipt of the declaration forms by ETC and the field offices.

² Amritsar-I, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar_I and II, Kapurthala, Ludhiana_II and III, Moga, Mohali, Mukatsar, Patiala and Ropar.

2.12.6 Operation of the Tax Information Exchange System

The Tax Information Exchange System (TINXSYS) is a centralised exchange of all inter-State dealers spread across the various States and Union Territories of India. The system was designed to help the commercial tax departments of various States and Union Territories to effectively monitor the inter-State trade. The Commercial tax Departments officials use TINXSYS for verification of the central statutory forms used by the dealers of commercial tax Department of other States. TINXSYS also provides Management Information System (MIS) and business intelligence reports to the commercial tax departments to monitor the inter-State trade movements.

The Department has already developed an interface between the departmental server and the TINXSYS server for online migration of data. The data is being integrated automatically from the State server to the intermediate server and from the intermediate server to TINXSYS data centre.

Out of the ten³ test checked districts it was observed that TINXSYS was in operation only in the office of AETC, Ludhiana-III and in the remaining nine districts, the system was not uploaded periodically. Therefore, the central declaration forms were not got verified through TINXSYS due to non-uploading of information in the system.

The issue was contested by the Department in exit conference and stated that TINXSYS is a web based site and was available wherever internet was available. The contention of the Department is not accepted as the system though operational in all the Excise offices, yet the data on the system was not fully uploaded.

2.12.7 Submission of Declaration Forms

Second proviso to the Sub Rule (1) of the rule 12 of the CST (R&T) Rules 1957 provides that a single declaration in form C may cover all transactions of sales taking place in a quarter of a financial year between two dealers. Sub rule (7) of Rule 12 further provides that the declarations in Form C or Form F or the certificate in Form E-I or E-II shall be furnished to the prescribed authority within three month after the end of the period to which these declarations or the certificate relates.

On the other hand, the sub rules (1) and (2) of rule 40 of the PVAT Rules 2005 provides that every taxable person shall furnish the annual statement by 20 November every year alongwith declarations in Form D and other relevant forms prescribed under the Central sales tax Act 1956. This shows that the provisions relating to submission of the declarations in the PVAT Act are not inconsonance with the provisions of CST Act.

This issue was contested by the Department in exit conference and stated that as per decision of the Hon'ble Supreme Court, the declaration form could be submitted at any time. The contention of the Department is not accepted as the State Rules are not inconsonance with the CST Rules.

³ Ferozepur, Gurdaspur, Hoshiarpur, Kapurthala, Jalandhar-2, Ludhiana-3, Moga, Mohali, Patiala and Sangrur.

Compliance Deficiencies

2.12.8 Grant of exemption on branch transfer on the basis of fake F forms

AETC Sangrur

Section 6-A of the CST Act 1956 provides that where any dealer claims that he is not liable to pay tax in respect of any goods, on the ground that the movement of such goods from one State to another State was occasioned by reason of transfer of such goods by him to any place of his business or to his agent or principal, as the case may be and not by reason of sale, the burden of proving that the movement of those goods was so occasioned shall be on that dealer. For this purpose he may furnish to the assessing authority, within the prescribed time a declaration duly filled and signed by the Principal officer of the other place of business or his agent or principal as the case may be, containing the prescribed particulars in the prescribed form obtained from the prescribed authority, alongwith the evidence of dispatch of such goods and if the dealer fails to furnish such declaration, then the movement of such goods shall be deemed for all purpose of this Act to have been occasioned as a result of sale.

We found from the records relating to assessments, assessed during 2009-10 in respect of three dealers for assessments year 2005-06, that the dealers had claimed and were allowed deduction of ₹ 94.38 lakh on account of branch transfer supported by seven declarations in Forms F. During cross verification of these declaration forms we found that these forms were fake and not genuine since they were not issued by the respective Tax Departments. The tax foregone of ₹ 10.82 lakh on account of the irregular exemption, needs to be recovered from the dealers after verification. Besides penalty was also leviable for submission of fake forms.

In the exit conference, the Department accepted the audit objection and agreed to take appropriate action.

2.12.9 Grant of concession on the basis of fake C forms

Two AETCs⁴

Sub section 4 of Section 8 of the CST Act provides that the concession admissible under Section 8(1) shall not be admissible to any sale in the course of inter State trade or commerce unless the dealer selling the goods furnishes to the prescribed authority in the prescribed manner a declaration duly filled and signed by the registered dealer to whom the goods are sold.

Cross verification of C-forms pertaining to inter State sale made by the dealers of Punjab with the utilisation account of declaration forms/details of goods received through inter State purchases by the dealers of New Delhi revealed that two dealers in their assessments had claimed and allowed concessional rate of CST in two transactions during 2009-10 for assessment years 2005-06, for ₹ 2.48 crore against production of fake/non-genuine forms since they were not issued by the Tax Department of Delhi. The tax foregone of ₹ 19.14 lakh on

account of the concessional rates, needs to be recovered from the dealers, after verification. Besides penalty was also leviable for submission of fake forms.

In the exit conference, the Department accepted the audit objection and agreed to take appropriate action.

2.12.10 Mis-utilisation of declaration forms

Three AETCs⁵

Cross verification of C-forms pertaining to inter State sale made by the dealers of Punjab with the utilisation account of declaration forms/details of goods received through inter State purchases by the dealers of three States⁶ revealed that four dealers had claimed and allowed during 2009-10 for the assessment years 2005-06 and 2006-07, concessional rate of CST on seven transactions amounting to ₹ 2.75 crore against the production of declaration forms issued to the dealers other than the purchasing dealers. This misutilisation of the declarations resulted in short levy of CST of ₹ 0.25 crore, being sale deemed to be without the support of declarations.

In the exit conference, the Department accepted the audit objection and agreed to take appropriate action.

⁴ Ferozepur and Gurdaspur.

⁵ Gurdaspur, Kapurthala and Moga.

⁶ Himachal Pradesh, Jammu & Kashmir and Orissa.

2.12.11 Grant of concession without the support of F Forms/with the support of defective F forms

Three AETCs⁷

Section 6-A of the CST Act 1956 provides that where any dealer claims that he is not liable to pay tax in respect of any goods, on the ground that the movement of such goods from one State to another State was occasioned by reason of transfer of such goods by him to any place of his business or to his agent or principal, as the case may be and not by reason of sale, the burden of proving that the movement of those goods was so occasioned shall be on that dealer. For this purpose he may furnish to the assessing authority, within the prescribed time a declaration, duly filled and signed by the Principal officer of the other place of business or his agent or principal as the case may be, containing the prescribed particulars in the prescribed form obtained from the prescribed authority, alongwith the evidence of dispatch of such goods and if the dealer fails to furnish such declaration, then the movement of such goods shall be deemed for all purpose of this Act to have been occasioned as a result of sale. No provisions of the CST Act/Rules provide for such concession where the declaration forms are tampered, unsigned, not genuine and having cutting and over writing.

(a) Test check of the assessment records and annual returns revealed that while finalising the assessments during 2010-11 of three dealers for the assessment years 2005-06 to 2008-09 and as per the annual statements of two dealers for the years 2006-07 and 2008-09, the DOs allowed deduction on account of branch transfer of ₹ 33.84 crore without the production of prescribed declarations in Form F. Grant of deduction without the support of declarations resulted in non-levy of tax of ₹ 4.23 crore.

Five AETCs⁸

(b) During test check of records relating to assessments, we noticed that the DOs, while finalising the assessments of 17 dealers between April 2009 and March 2011 for the year 2004-05 to 2008-09 allowed deductions on account of branch transfer of goods valued ₹ 78.68 crore against production of declarations in Form F. Scrutiny of these declarations revealed that information like date of registration, quantity and date of dispatch of goods etc. were not found recorded on these declarations. We also noticed that the deductions were allowed against the production of duplicate declarations.

The deductions allowed on the basis of incomplete/duplicate/tampered declarations in Forms F resulted in non levy of tax of ₹ 7.80 crore.

⁷ Ludhiana II, Patiala and Sangrur.

⁸ Jalandhar-I, Ludhiana -II, Ludhiana-III, Ropar and Sangrur.

In exit conference the Department accepted the deficiencies pointed out in the declarations and agreed to take appropriate action. Action taken by the Department is awaited (December 2011).

2.12.12 Grant of concessional rate of CST on the basis of defective C forms

Eleven AETCs⁹

Sub section 4 of Section 8 of the CST Act provides that concessional rate of tax shall not apply to any sale in the course of inter State trade or commerce, unless the dealer selling the goods furnishes to the prescribed authority in the prescribed manner a declaration duly filled and signed by the registered dealer to whom the goods are sold, containing the prescribed particulars in a prescribed form obtained from the prescribed authority. No provisions of the CST Act/Rules provide for the concessional rate of CST on inter State sale of goods supported by declarations which are tampered, unsigned, non-genuine and having cutting and over writing.

(a) Test check of assessment records revealed that while finalising the assessment of 91 dealers between April 2009 and March 2011 for the assessment years 2005-06 to 2008-09, the DOs assessed the inter State sales valuing ₹ 254.89 crore at concessional rate of CST, supported by declarations in Form C which were incomplete/duplicate/tampered/ unsigned/non-genuine. This resulted in short levy of tax of ₹ 22.65 crore.

Four AETCs¹⁰

(b) Test check of the records of assessments and self assessments revealed that while finalising the assessments of 10 dealers between April 2009 and March 2011 for the assessment

years 2001-02 and 2004-05 to 2008-09, the DOs assessed inter State sale of ₹ 97.14 crore at concessional rate of CST without the support of prescribed declarations in Form C. This resulted in short levy of tax of ₹ 8.31 crore.

In exit conference the Department accepted the deficiencies pointed out in Audit and agreed to take appropriate action. Action taken by the Department is awaited (December 2011).

⁹ Ferozpur, Gurdaspur, Hoshiarpur, Kapurthala, Jalandhar-I, Jalandhar-II, Ludhiana-II, Ludhiana-III, Moga, Ropar and Sangrur.

¹⁰ Gurdaspur, Ludhiana II, Ludhiana III and Mukatsar.

2.12.13 Non-levy of penalty and interest in fraudulent utilisation of declarations

AETC Jalandhar-I

Section 56 (b) of the Punjab VAT Act 2005 provides that if the dealer furnish incorrect particular deliberately, in order to evade or avoid payment of tax, the DO shall direct that the dealer shall pay, by way of penalty, in addition to the tax and interest payable by him, a sum equal to twice the amount of tax assessed on account of the aforesaid reasons. Further section 9(2) of the CST Act provides that provisions of the State Act (PVAT Act) relating to imposition of penalty and interest apply as such to the similar cases in the CST transactions.

Test check of assessment records revealed that while finalising the assessment (June 2010) of a dealer for the assessment year 2006-07 the DO allowed the concessional rate of tax on whole of the inter State sale of ₹ 73.91 crore against the production of 432 'C' forms. The scrutiny of these declaration revealed that out of these declarations ten declarations were tampered, thereby the value of goods covered by these forms was increased to the tune of ₹ 2.67 crore than the actual value.

Utilisation of the declarations in fraudulent way so to evade tax resulted in short levy of tax of ₹ 0.23 crore, non-levy of penalty of ₹ 0.45 crore and interest of ₹ 0.06 crore.

In its reply submitted in the exit conference the Department accepted the issue and stated to re-open the assessment case. Final outcome of the re-assessment is awaited (December 2011).

2.12.14 Grant of concession on the basis of defective E-I forms

Three AETCs¹¹

No provisions of the CST Act/Rules provide for exemption on account of transit sale from the payment of CST, supported by the declarations which are tampered, unsigned, non genuine and having cutting and over writing.

Test check of the assessment records revealed that while finalising the assessment of six dealers between April 2009 and March 2011 for the year 2005-06 and 2007-08, the DOs allowed exemption of tax on ₹ 12.77 crore on account of transit sale made to other registered dealers supported by incomplete and duplicate declarations in Form E-I. This resulted in non levy of tax of ₹ 1.10 crore.

In exit conference the Department accepted the deficiencies pointed out in audit and stated that defects being minor, there involved no loss of revenue. The contention of the Department is not accepted as the acceptance of the defected declarations led to violation of CST Act/Rules.

¹¹ Jalandhar-II, Ludhiana-II and Ludhiana-III.

2.12.15 Grant of exemption on the basis of defective H forms

AETC Ludhiana-II

Under the provision of CST Act read with the Rules made thereunder, sale of goods made by one registered dealer to another registered dealer for export are to be allowed as deduction from his turnover on the production of Form 'H' duly filled and signed by the exporter alongwith evidence of export of such goods. No provisions of the CST Act/Rules provide for the exemption of CST supported with declarations in Form H which are tampered, unsigned and having cutting and over writing.

Test check of the assessment records revealed that while finalising the assessment of seven dealers between April 2010 and March 2011 for the assessment years 2005-06 to 2006-07, the DO allowed exemption from payment of tax on sale of ₹ 3.70 crore made to the exporter on the basis of incomplete and duplicate declarations in Form H. This resulted in non-levy of tax of ₹ 0.37 crore.

In exit conference the Department accepted the deficiencies pointed out in audit and stated that defects being minor, there involved no loss of revenue.

The contention of the Department is not accepted as the acceptance of the defected declarations in violation of CST Act/Rules, has revenue implication.

2.12.16 Conclusion

It is evident that due to non-compliance with the provisions of the Act/Rules inadequate and improper check of the forms by the DOs and weak internal control mechanism, resulted in tax foregone of ₹ 45.24 crore during the four years from 2005-06 to 2008-09 in the cases test checked by audit. As such the possibility of such cases at other places cannot be ruled out.

2.12.17 Recommendations

It is recommended that the Department need to strengthen

- *the internal control to avoid allowances of exemptions/concessions on the basis of deficient/incomplete forms, while finalising the assessments and also strengthen the system for cross verification of the transactions relating to stock transfer.*

2.13 Other audit observations

We noticed several cases of non-observance of provisions of Acts/Rules; non/short levy of tax, penalty and interest; incorrect allowance of exemption; and other cases during scrutiny of records of sales tax/VAT as mentioned in the succeeding paragraphs. These cases are illustrative and are based on the test check carried out by us. Such omissions on the part of Assessing Authorities (AAs)/Designated Officers (DOs) are pointed out in audit repeatedly, but not only the irregularities persist, they also remain undetected till we conduct audit. There is need for the Government to improve the internal control system so that such omissions can be detected and corrective measures taken.

2.14 Non-observance of the provisions of Acts/Rules

The Punjab General Sales Tax Act, 1948 (PGST Act), The Punjab Value Added Tax Act, 2005 (PVAT Act), The Central Sales Tax Act, 1956 (CST Act) and the Rules provide for:-

- (i) levy of tax at the prescribed rates,*
- (ii) exemption from tax*
- (iii) correct determination of the tax/turnover and*
- (iv) grant of Input Tax Credit.*

The AAs while finalising the assessment did not observe some of the provisions of Acts/Rules in the cases mentioned in paragraphs 2.14.1 to 2.14.11. This resulted in non/short levy and non-realisation of tax, interest and penalty of ₹ 8.39 crore.

2.14.1 Short/non-reversal of input tax credit

AETC, Hoshiarpur

Rule 24(1) of the PVAT Rules provides that where a person has used the purchased goods, partially for taxable sales but unable to maintain accounts as provided in the Rule 23, and the sale made by him includes tax free goods and taxable goods or consignment or branch transfers, then it shall be presumed that goods so purchased have been used in proportion to the turnover of sale of tax free goods, taxable goods and consignment or branch transfers. Accordingly, input tax credit shall be claimed in that proportion and shall be apportioned for tax free sale. Input tax credit in the case of consignment sale shall be considered only to the extent by which the amount of tax paid in the State exceeds four percent. Further, in terms of the provision contained in section 13-A of the PVAT Act, a taxable person shall not be entitled to input tax credit in respect of the tax paid by him under the Punjab Tax on Entry of Goods into Local Area Act, if such goods are for use in the manufacture, processing or packing of taxable goods sent outside the State other than by way of sale or for use in the manufacture, processing or packing of tax free goods.

1. We found (October 2010), the following deficiencies in allowing of input tax credit to a dealer by the Assessing Officer.

(a) In the assessment order (February 2010) for the year 2007-08, the dealer had gross turnover of ₹ 517.09 crore which included branch transfer of ₹ 154.76 crore and tax free sale of ₹ 240.12 crore. The dealer had eligible purchases for input tax credit (ITC) of ₹ 174.46 crore inclusive of interstate purchases.

We observed that the assessing authority in re-assessment proceedings calculated the apportionment on account of branch transfer and tax free sale (Schedule A goods) by the formula prescribed under Rule 24. This was done as the dealer had not maintained separate accounts as required under Rule 23. However while computing apportionment of ITC on account of branch transfer and tax free sale, the Assessing Authority apportioned ITC of ₹ 3.73 crore instead of correct apportionable ITC of ₹ 5.35 crore based on formula prescribed under Rule 24. This resulted in short reversal of ITC of ₹ 1.62 crore mainly due to non-consideration of entry tax for apportionment.

(b) In the case of refund for the quarter ended June 2008, the assessee had gross turnover of ₹ 138.15 crore which included branch transfer of ₹ 41.92 crore and tax free sale of ₹ 62.55 crore. The

dealer had eligible purchases for ITC of ₹ 89.35 crore inclusive of interstate purchases. It was noticed that while computing apportionment of ITC on account of branch transfer and tax free sale, the AA erroneously apportioned ITC of ₹ 1.08 crore instead of correct apportionment of ITC of ₹ 2.71 crore

based on formula in Rule 24. This resulted in short reversal of ITC leading to excess refund of ₹ 1.63 crore mainly due to non-consideration of entry tax for apportionment.

We reported the matter to the Department and the Government (October 2010 and February 2011). The Department admitted the audit observation (February 2011) and stated that the case had been taken up for re-assessment. The Department further informed (June 2011) that additional demand of ₹ 2.51 crore for the year 2008-09 had been created in this case.

AETC, Ludhiana II

Rule 24(1) of the PVAT Rules provides that where a taxable person has used the purchased goods partially for taxable and tax free sales, but unable to maintain accounts as provided in the Rule 23 and the sales made by him include sale of tax free goods and taxable goods, then it shall be presumed that the goods so purchased have been used in proportion of turnover of sales of tax free goods and accordingly the input tax credit shall be apportioned in that proportion. Rule 43 further provides that, the designated officer shall scrutinise every return filed under section 26 of the Act.

2. (a) We found (July and August 2010) that three dealers engaged in the business of manufacturing and sale of both taxable and tax free goods, in their self assessed returns for 2007-08 had shown tax free sale of ₹ 34.25 crore out of the gross turnover of ₹ 48.30 crore. The dealers had used taxable goods amounting to ₹ 30.17 crore in the manufacture of tax free goods and taxable goods, but failed to maintain separate accounts as required under Rule-23. The dealers had apportioned ITC of ₹ 79.48 lakh against the correct apportionable ITC of ₹ 104.47 lakh worked out in audit by applying the formula provided in Rule 24 of PVAT Rules and this resulted in short apportionment of ITC ₹ 24.99 lakh. The DO did not scrutinise the return filled by these dealers. Had he scrutinise the return, the irregularity could have been detected.

When we pointed out, the DO did not furnish any reply.

We reported the matter to the Department and the Government (July, August 2010 and March 2011); their replies are awaited (December 2011).

AETC, Hoshiarpur

(b) We found (October 2010) that while finalising the assessment for the year 2005-06 in October 2009 of a dealer engaged in the business of manufacture and sale of sugar (tax free goods), the AA (October 2009) erred in not including the tax free sale of ₹ 31.42 crore made in the course of inter state sale to the tax free sale of ₹ 59.14 crore made within the State for computing the apportionment of ITC. Similarly, in contravention of the provisions of the PVAT Act, no apportionment on account of tax free sale of ₹ 98.88 crore was

made by the assessee in his self assessed returns for the year 2007-08. These deficiencies resulted in short/non-reversal of ITC of ₹ 12.20 lakh.

We reported the matter to the Department and the Government (October 2010 and February 2011). The Department admitted the audit observation (February 2011) and stated that the case had been taken up for re-assessment. Final outcome of the re-assessment is awaited (December 2011).

AETC Hoshiarpur

The PVAT Rules provide that no input tax credit shall be admissible to a person for tax paid on purchases of goods, if such goods are lost or destroyed or damaged beyond repair because of any theft, fire or natural calamity. Rules further provide that ITC availed on the goods, which are destroyed beyond repair shall be reversed immediately on the occurrence of such event.

3. We found (November 2010) that in the case of a self assessed return filed by a dealer for the year 2007-08, the dealer had claimed and was allowed ITC on the purchases of ₹ 30.28 crore which included goods worth ₹ 1.16 crore destroyed in fire. No reversal of the ITC of ₹ 4.66 lakh, proportionate to the destroyed goods was carried out.

We reported the matter to the Department and the Government (February 2011) to which it was stated by the Department that additional demand of ₹ 5.73 lakh

had been created by AETC Hoshiarpur. The reply of the Government is awaited (December 2011).

2.14.2 Inadmissible/Erroneous refunds

AETC, Ludhiana III

The Punjab Tax on Entry of Goods into Local Area Act, 2000 read with new conditions regulating deferment and exemption as contained in the Punjab VAT Act, 2005 provides that a unit availing the benefit of deferment of or exemption from the payment of tax, shall be entitled to refund of tax, paid or payable by it on the purchase made from the taxable person within the State.

1. We noticed that while allowing refunds to an exempted unit (between May 2009 and September 2009) for the period October 2008 to June 2009 to a dealer, the DO did not observe the new conditions¹² regulating deferment and exemption and incorrectly allowed input tax credit against entry tax paid on import from other States made by the dealer alongwith input tax credit paid on the purchases made from the State of Punjab. This resulted in inadmissible allowance of ITC on account of entry tax and consequent

¹² Conditions no.2 (1) substituted by notification no. S.O. 21/P.O.5/2005/S.92/2005 dated 6 April, 2005 read as an exempted unit is entitled for refund of tax on purchases made from a taxable person within the State of Punjab only.

grant of refund to the extent of ₹ 1.36 crore. The AETC stated that the matter would be examined as per law.

When we reported (December 2010); the Department stated (June 2011) that ITC on account of entry tax is admissible to the taxable person under section 13-A which in no way excluded the exempted unit from entitlement of ITC on account of entry tax. The reply of the Department is not accepted because in terms of condition no. 2 (1) notified on 6.4.2005 under the saved (D&E) Rule 1991, exempted units are entitled for refunds of tax paid on the purchases made from the taxable person within the State of Punjab only, whereas these dealers had made interstate purchases which were not eligible for credit of any taxes paid.

We reported the matter to the Government (March 2011); its reply is awaited (December 2011).

AETC, Fatehgarh Sahib

The PVAT Act and Rules made thereunder provides that every taxable person shall keep a true account of goods sold and purchased by him.

2(a) We found (August 2010) from the records relating to refund that while claiming refund of ₹ 3.62 lakh for the quarter ended June 2008 and September 2008, an assessee claimed and allowed entry tax of ₹ 26.47 lakh on account of tax paid on the purchase

of ₹ 6.62 crore made from outside the State of Punjab, had actually accounted for the purchase of ₹ 5.15 crore only. Though the details of inter state purchases were on the records the DO did not verify them and point out the suppression of the purchases while allowing the refund. This resulted in suppression of sales equivalent to the short accounting of ₹ 1.47 crore of imported purchase leading to inadmissible refund of ₹ 3.62 lakh and short levy of tax of ₹ 2.26 lakh.

We reported the matter to the Department and the Government (October 2010 and February 2011); their replies are awaited (December 2011).

AETC, Mohali

(b) We found (November 2010) from the records relating to refunds that the assessee claimed and was allowed refunds of ₹ 94.14 lakh for the quarter ended December 2008 and March 2009. The assessee claimed and allowed entry tax of ₹ 71.46 lakh on account of tax paid on the purchase of ₹ 17.86 crore made from outside the State of Punjab, had actually accounted for the purchase of ₹ 12.30 crore only. Though the details of inter state purchases were on the records, the DO did not verify them and point out the suppression of the purchases while allowing the refund. This resulted in suppression of sales equivalent to the short accounting of ₹ 5.56 crore of imported purchase leading to inadmissible refund of ₹ 22.27 lakh.

We reported the matter to the Department and the Government (November 2010 and February 2011); their replies are awaited (December 2011).

AETC, Ludhiana III

New conditions regulating exemption from payment of tax under the saved PGST (Deferment and Exemption) Rules, provide that a taxable person purchasing goods from an exempted unit, shall, first utilise the actual input tax credit arising out of the purchases made within the State from non-exempted taxable person and only when this is exhausted, he shall utilise the permissible notional input tax credit available to him. Conditions further provide that the taxable person purchasing goods from an exempted unit and all subsequent taxable persons to whom these goods are sold, shall not be entitled to any refund on account of the notional input tax credit arising in the hands of the first taxable person.

3. We found (December 2010) that, while authorising (August 2009) refund to a dealer for the quarter ended December 2008, the DO instead of adjusting the available actual ITC of ₹ 5.76 crore, erroneously first adjusted the notional input tax credit of ₹ 69.22 lakh towards the output tax liability without exhausting the actual ITC of the dealer and issued refund of ₹ 4.38 crore. This resulted in excess refund of ₹ 69.22 lakh on account of notional ITC which was adjusted against the output tax liability.

The matter was brought to the notice of the DO to which no reply was furnished by him.

We reported the matter to the Department and the Government (December 2010 and March 2011); their replies are awaited (December 2011).

2.14.3 Excess allowance of exemption

AETC, Ferozpur

Notification prescribing the conditions under the PVAT Act, subject to which the concessions granted under the PGST (Deferment and Exemption) Rules were allowed to be continued, provides that the quantum of deferment or exemption from payment of tax, availed by an assessee shall be calculated by adding the output tax on interstate sales, output tax on inter state stock transfer, the amount of refund allowed and the output tax on local sales.

(i) We found in November 2010 that while finalising (March 2010) the assessment of a dealer for the year 2005-06 engaged in the business of manufacture and sale of liquor and availing the benefit of exemption from payment of tax under the saved PGST (D&E) Rules, the DO, instead of adding the notional output tax of ₹ 16.91 lakh levied on the branch transfer of ₹ 3.96 crore to the quantum of exemption, erroneously debited it to the ITC. The DO also erred to add the amount of refund of ₹ 35.94 lakh instead of ₹ 41.68 lakh allowed to the assessee during the year to the

quantum of exemption. These mistakes resulted in excess allowance of exemption by ₹ 22.65 lakh.

(ii) We further noticed in the case of same assessee that against the available balance of exemption of ₹ 2.52 crore as on 31 March 2006, the DO erroneously brought forwarded and accounted the balance of exemption as ₹ 2.84 crore as on 1 April 2006, which resulted in excess allowance of exemption of ₹ 32 lakh to the dealer.

(iii) Again we found (November 2010) from the records relating to refunds in the case of the same assessee that while finalising the refunds (August and September 2009) for the years 2006-07 to 2008-09, the notional output tax was short computed by ₹ 80.92 lakh due to non/short levy of tax on branch transfer and levy of tax at incorrect rates. This resulted in short levy of notional output tax and excess allowance of exemption of ₹ 1.36 crore to the dealer.

When we reported (November 2010); the Department accepted the audit objection and stated (June 2011) that additional demand of ₹ 54.09 lakh for the year 2005-06 had been created and adjusted against the available exemption and for the assessment years of 2006-07 to 2008-09, the assessments were yet to be finalised.

We reported the matter to the Government (March 2011); its reply is awaited (December 2011).

2.14.4 Evasion of tax

AETC, Patiala

The PVAT Act and Rules made thereunder provides that every taxable person shall keep a true account of the goods sold and purchased by him. Section 56 of the PVAT Act, 2005 further provides that if the Commissioner or the designated officer is satisfied that the person in order to evade or avoid payment of tax has concealed any transactions of sale or purchase from his account books, he shall direct that the person shall pay penalty equivalent to twice the amount of tax, in addition to the tax and interest payable by him

1. We found (August 2010), in the case of an annual return filed by a dealer for the year 2007-08 that the dealer had business income of ₹ 70.00 lakh which he kept outside his books of account. When he depicted this income subsequently, instead of taking it to sale and pay tax, he took it to profit and loss account. He had also exhibited stock of ₹ 61 lakh in the debit side of his trading account instead of the credit side. These discrepancies resulted in decrease of gross profit, increase of net profit and evasion of tax of ₹ 6.21 lakh. Besides, penalty of ₹ 12.43 lakh was also leviable. No notice demanding the tax and penalty as required under the Act was issued by the DO.

When we reported (August 2010); the Department stated (April 2011) that out of the surrendered amount the dealer had increased the stock by ₹ 61 lakh and tax would be paid as and when the sale was effected. The reply is not accepted

because as to how income of ₹ 70 lakh could have been earned when the goods which were stated to be added to the stock had not been sold. Moreover by taking of the stock to purchases, the gross profit was decreased to the tune of ₹ 61 lakh and remained ₹ 48.36 lakh against which the net profit was taken as ₹ 77.63 lakh on taking the surrendered income of ₹ 70 lakh to the profit and loss account instead of taking it to the credit side (sale).

We reported the matter to the Government (January 2011); its reply is awaited (December 2011).

AETC, Ludhiana I

The PVAT Act 2005 provides that every taxable person, registered person, casual trader or any other person, who is required so to do by the Commissioner or the designated officer by notice served on him, shall keep a true account of the goods sold and purchased by him.

2. We found (September 2010) from the records relating to returns that as per certified balance sheet filed by a dealer for the year 2007-08, alongwith his annual return, the dealer has gross turnover of ₹ 111.23 crore which was inclusive of job work of ₹ 4.48 crore and may be inclusive of tax element of ₹ 3 crore. After allowing all the admissible deductions on account

of job work and the amount of tax element the GTO was worked out in audit as ₹ 103.80 crore against which the GTO ₹ 101.35 crore was accounted and assessed to tax by the dealer in his self assessed return. This has resulted in suppression of sale of ₹ 2.45 crore and led to short levy of tax ₹ 9.80 lakh.

When we reported the matter (September 2010) the Department replied that audit had wrongly included the Central Excise duty of ₹ 2.61 lakh paid by the dealer on job work, which is exempted from VAT. The reply is not relevant since the issue is about suppression of sales turnover even after removal of job work and taxes paid.

We reported the matter to the Government (January 2011); its reply is awaited (December 2011).

2.14.5 Non-levy of tax due to wrong classification

AETC, Mohali

Under the PGST Act and Rules made thereunder, poultry feed supplements such as nutrients, vitamins, antibiotics, medicines and other category of feed supplements are taxable at the rate of 8.80 per cent with effect from 17 July 2002.

We found (February 2010) that while finalising (March 2009) the assessment for the year 2004-05 of a dealer engaged in the business of manufacture and sale of medicines, the AA erroneously exempted the sale of poultry feed supplements valued ₹ 4.04 crore, treating the items as poultry feed which was tax free. This wrong classification

resulted in non-levy of tax of ₹ 35.53 lakh.

We reported the matter to the Department and the Government (February 2010 and January 2011); their replies are awaited (December 2011).

2.14.6 Non-levy of notional tax on consignment sale

AETC, Barnala

The Punjab General Sales Tax (Deferment and Exemption) Rules provides that on the branch transfer of goods or the consignment sales outside the State of Punjab, notional sales tax shall be computed at the rate of four *per cent* on production of the certificate in Form 'F'.

We found (February 2010) that while finalising (September 2008) the assessment for the year 2002-03 (July 2002 to March 2003) of a dealer engaged in the business of yarn etc. and availing the benefit of exemption from payment of tax, the AA did not assess the branch transfer of goods valuing ₹ 3.58 crore made by the dealer. This resulted in non-levy of notional tax leading to excess carry forward of exemption of ₹ 14.31 lakh.

When we pointed out (February 2010) the Department raised additional demand for ₹ 14.31 lakh (March 2011) and adjusted the same against the exemption allowed to the dealer.

We reported the matter to the Government (January 2011); its reply is awaited (December 2011).

2.14.7 Non-levy of tax at the first stage of sale

AETC, Ludhiana I

Under the provisions of the PGST Act and the Rules framed thereunder, tax is leviable at the first stage of sale of all types of man made, synthetic, natural and blended fibres and wastes thereof, packing material and paper boards. The first stage in the case of a dealer, who brings into the State of Punjab the said goods from any place outside the State, is the stage when such dealer sells the said goods for the first time within the State.

We noticed (September 2010) that while finalising (August 2009) the assessments of two dealers for the year 2003-04, the AA allowed deduction of ₹ 2.33 crore on account of sale of fibres, fibres waste, synthetic fibres waste, cones for packing yarn and paper board made to the registered dealers in the State against production of declarations. Since these goods were taxable at the first stage of sale, the deductions allowed against declarations were not admissible. This resulted in non-levy of tax of ₹ 11.18 lakh.

When we pointed out in audit, the DO replied that matter would be looked into and reply would be sent in due course.

We reported the matter to the Department and the Government (September 2010 and March 2011); their replies are awaited (December 2011).

2.14.8 Unauthorised retention of tax

AETC, Patiala

The PVAT Act provides that no person, who is registered under this Act, shall collect tax in excess of the amount leviable under the Act, and if it is collected in excess, he shall be liable to deposit the tax so collected immediately after such collection.

We found (July 2010) that a dealer engaged in the business of cement, had collected total tax of ₹ 3.71 crore on the sale of cement worth ₹ 29.70 crore made during the year 2007-08. As per the list of sales (VAT-23), the dealer had issued credit note for ₹ 17.85 lakh involving tax of ₹ 2.23 lakh. But in his self assessed returns, he claimed credit note for ₹ 89.16 lakh and shown the tax paid as ₹ 3.60 crore against the due tax of ₹ 3.69 crore (₹ 3.71-

₹ 0.02 crore). The excess claim for credit note resulted in unauthorised retention of tax of ₹ 9 lakh.

We reported the matter to the Department and the Government (July 2010 and January 2011); their replies are awaited (December 2011).

2.14.9 Under assessment of tax due to excess admittance of notional input tax credit

AETC, Hoshiarpur

Under the PGST (Deferment and Exemption) Rules saved under the PVAT Act, notional input tax credit on the purchases made from an exempted unit and used in the manufacturing of taxable goods sold in the course of inter State trade or commerce shall be available only to the extent of the central sales tax chargeable under the CST Act. Tax on the interstate sale of yarn is leviable at the rate of two per cent.

We found (October 2010) that a dealer engaged in the business of manufacture and sale of yarn etc. had purchased goods worth ₹ 19.42 crore from exempted units. While finalising (January and March 2010) the assessment for the years 2006-07 and 2007-08, the AA erroneously allowed notional input tax credit (ITC) of ₹ 14.05 lakh on the exempted purchase of goods at the flat rate of four per cent instead of ₹ 7.03 lakh i.e. equal to the CST of two per cent, charged on the corresponding

inter State sale of products made out of the exempted goods purchased. This mistake resulted in under assessment of tax of ₹ 7.03 lakh.

We reported the matter to the Department and the Government (October 2010 and February 2011); their replies are awaited (December 2011).

2.14.10 Excess claiming of ITC

AETC, Ludhiana II

The PVAT Act 2005 provides that every taxable person, who is required to do so by the Commissioner or the designated officer by notice served on him, shall keep a true account of the goods sold and purchased by him. The Act further provides that a taxable person shall be entitled for input tax credit in respect tax paid on the taxable goods including capital goods purchased within the State.

We noticed (August 2010) that while finalising (November 2009) the assessments of a dealer for the year 2005-06 and 2006-07, the DO allowed the dealer to claim ITC on the gross purchase of ₹ 11.63 crore mentioned in the tax returns against the admissible gross purchase of ₹ 10.76 crore stated in the authenticated trading account. The incorrect computation of gross purchase resulted in excess claim of ITC of ₹ 3.49 lakh.

When we pointed out (August 2010), the DO did not furnish any reply.

We reported the matter to the Department and the Government (September 2010 and February 2011); their replies are awaited (December 2011).

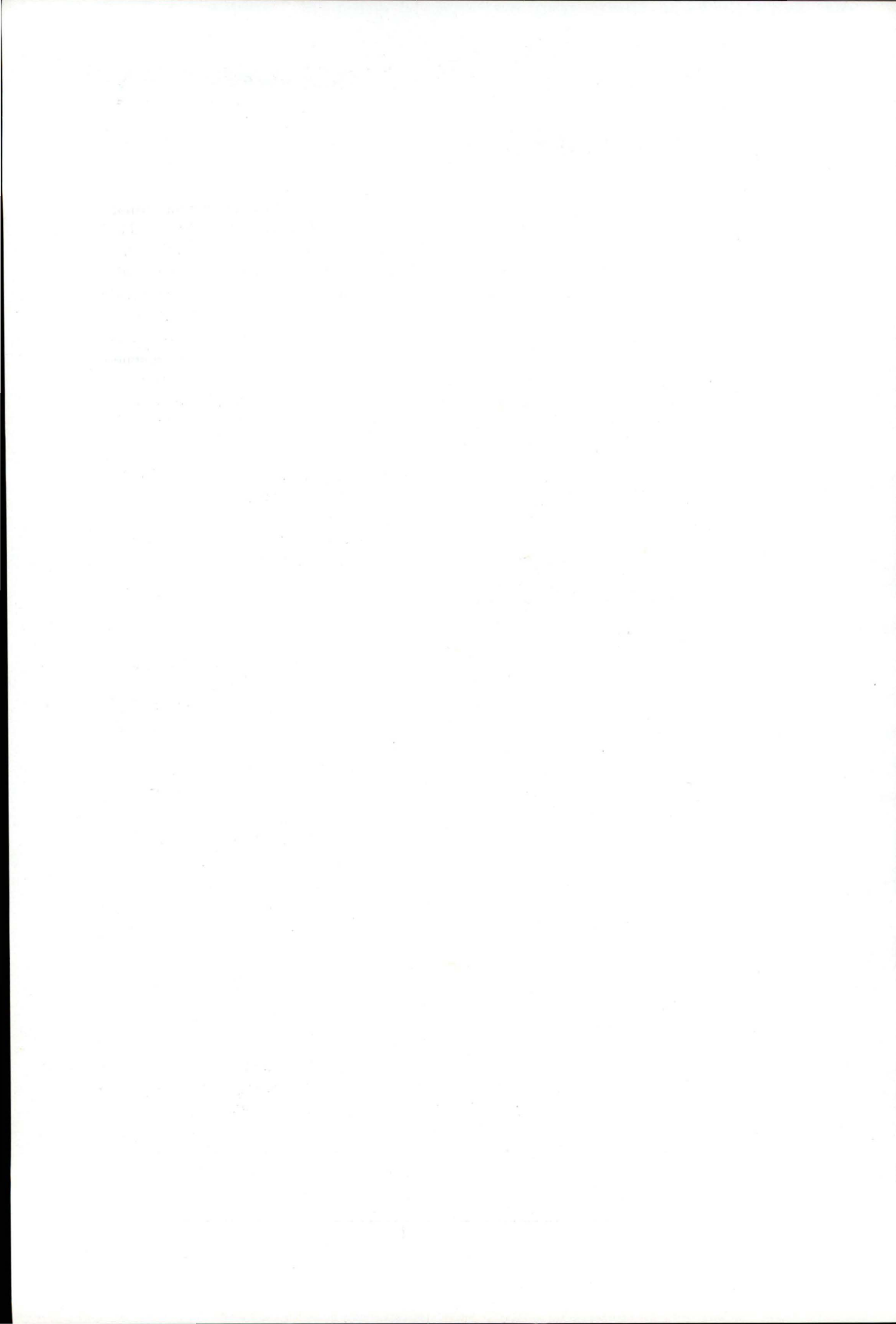
2.14.11 Non-levy of CST

AETC, Amritsar I

In terms of the notification SO-40/PA-8/2005 dated 14.10.2005 issued by the Punjab Government under Section-8 of the PVAT Act, 'blankets' are liable to tax at the rate of four per cent during the period from 1.4.2005 to 13.10.2005. Further, under the Central Sales Tax Act (CST Act), tax on the inter State sale of goods other than the declared goods and not supported by declaration in form-C shall be levied at the rate of 10 per cent or at the rate applicable to the sale of such goods inside the State, whichever is higher.

We noticed (October 2010) that while finalising the assessment (March 2010) for the year 2005-06 of a dealer, the DO had not levied CST on the sale of blankets costing ₹ 70.57 lakh made in the course of inter State trade and not covered by declaration in Form-C during the period from 1 April 2005 to 13 October 2005. This failure resulted in non-levy of CST of ₹ 7.06 lakh.

We reported the matter to the Department and the Government (October 2010 and March 2011); their replies are awaited (December 2011).



EXECUTIVE SUMMARY- CHAPTER – III

Increase in the tax collection	In 2010-11 the collection of taxes from Motor Vehicles increased by 17.88 <i>per cent</i> over the previous year which was attributed by the Department to the best efforts of the Department and better fiscal management.
Recovery by the Department of observations pointed out by us in earlier years	During the period 2005-06 to 2009-10 we had pointed out non/short levy etc. with revenue implication of ₹ 84.89 crore in 4,322 cases. Of these the Department/Government had accepted audit observation in 2407 cases involving ₹ 27.19 crore but recovered only ₹ 12.89 crore in 457 cases pertaining to the audit findings of previous years. The recovery position as compared to acceptance of objections was ranging from 5.05 <i>per cent</i> to 182.19 <i>per cent</i> .
Internal audit not conducted	Internal audit is intended to examine and evaluate the level of compliance with Rules and procedure. Effective internal audit system both in the manual as well as computerized environment is pre-requisite for the efficient working of any Department. However, no internal audit wing existed in the Department.
Results of audits conducted by us during 2010-11	In 2010-11 we test checked the records of 72 units relating to tax on vehicles and noticed several cases of non-observance of the provisions of the Act/Rules resulting misappropriation/ embezzlement of Government money, non/short levy of tax, penalty and interest and other irregularities involving ₹ 12.03 crore in 5,986 cases. The Department accepted audit observations involving ₹ 6.20 crore in 2,622 cases and recovered ₹ 1.11 crore in 66 cases pertaining to audit findings of previous years.
What we have highlighted in this chapter	<p>In this chapter we present illustrative cases of ₹ 0.79 crore inclusive of misappropriation of Government receipt of ₹ 15.55 lakh, selected from observations noticed during our test check of records relating to assessment and collection of Motor Vehicle Tax in the offices State Transport Commissioner (STC), Regional Transport Authorities (RTAs) and District Transport Officer (DTOs) etc. where we found that provisions of Act/Rules were not observed.</p> <p>We also present a Performance Audit on Computerisation in the Transport Department wherein we have reviewed the implementation of VAHAN and SARATHI application for registration of vehicles and issue of licences, respectively.</p> <p>It is matter of concern that similar omission have been pointed out by us repeated by in the Audit Reports for the past several years, but the Department has not takes corrective action despite switching over to an IT enabled system in the whole Department. We are also concerned that though these omission were apparent from the records which were made available to us, the Department was unable to detect these mistakes.</p>

Our Conclusion	<p>The Department needs to improve the internal Control System pertaining to maintenance of daily collection register and reconcile the remittance made in the treasury, including strengthening of internal audit so that weakness in the system are addressed and omission of the nature detected by us are avoided in future.</p> <p>It also needs to initiate immediate actions to recover the non-realisation, under assessment of tax etc. pointed out by us, more so in those cases where it has accepted our contention.</p>
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CHAPTER -III Taxes on Vehicles

3.1 Tax administration

The overall charge of the Transport Department vests with the State Transport Commissioner (STC), Punjab, and Chandigarh. There are 20 districts, each headed by a District Transport Officer (DTO) who monitors due observance of the Punjab Motor Vehicles Taxation Act, 1924 and the Rules made thereunder and maintains the records of receipt of motor vehicles taxes and various fee. Besides, there are four Regional Transport Authorities (RTAs) for regulating the transport vehicles in the State in conformity with the Act and collection of motor vehicles taxes in respect of buses of other States. In addition, Sub Divisional Magistrates (SDM) at sub division level are also entrusted with the work of registration of personalised vehicles and issue of driving/conductor licenses.

3.2 Analysis of Budget

Budget Estimates for the year 2010-11 were assigned at ₹ 620 crore by the Department, but the budget fixed by the Finance Department was ₹ 585 crore. The Finance Department again revised it to ₹ 700 crore, against which, the actual receipts were ₹ 653.91 crore.

3.3 Trend of receipts

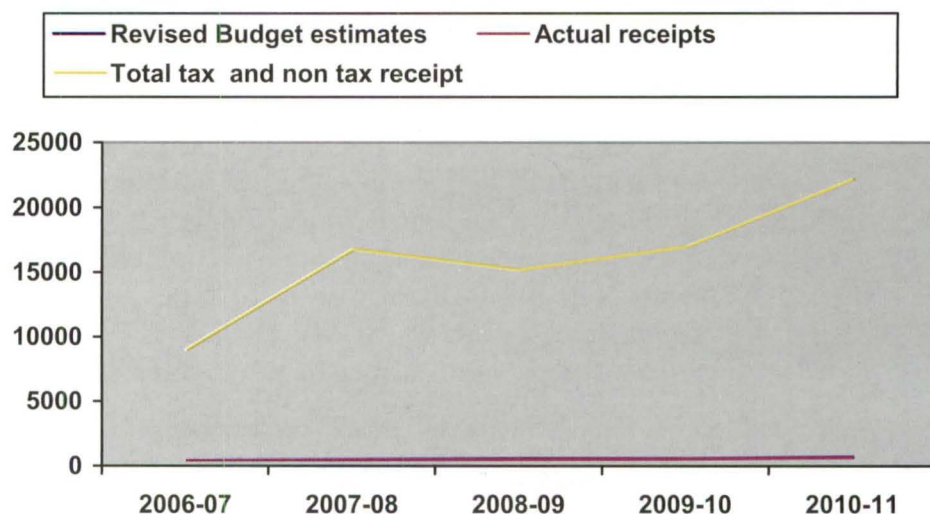
Actual receipts from Taxes on Vehicles during the period 2006-07 to 2010-11 alongwith the total tax/non-tax receipts during the same period are exhibited in the following table.

(₹ in crore)

Year	Revised Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax and non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax and non-tax receipts
2006-07	471.50	468.05	(-) 3.45	(-) 0.73	16,761.74	2.79
2007-08	524.00	499.45	(-) 24.55	(-) 4.69	15,153.14	3.30
2008-09	576.00	524.09	(-) 51.91	(-) 9.01	16,934.10	3.09
2009-10	585.00	554.74	(-) 30.26	(-) 5.17	17,692.18	3.14
2010-11	700.00	653.91	(-) 46.09	(-) 6.58	22,158.35	2.95

Though actual receipts increased from ₹ 468.05 crore to ₹ 653.91 crore, but the percentage of the revenue receipts from taxes on motor vehicles to the total receipts collected by the State remained stagnant around three over the last five years.

The trend of actual receipts vis-a-vis budget estimates during 2006-07 to 2010-11 is depicted in the following graph.



3.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 106.73 crore, of which ₹ 47.80 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	Closing balance of arrears
2006-07	59.97	67.72
2007-08	67.72	111.58
2008-09	111.58	109.20
2009-10	109.20	107.86
2010-11	107.86	106.73

From the above it can be observed that the arrears had increased from ₹ 67.72 crore in 2006-07 to ₹ 106.73 crore in 2010-11.

3.5 Cost of collection

The gross collection of the motor vehicles taxes and various fee, expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2006-07 to 2010-11 alongwith the relevant all India average percentage of expenditure on collection are mentioned below:

(₹ in crore)

Head of Revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage over the previous year
Taxes on Vehicles	2006-07	468.05	7.33	1.57	2.67
	2007-08	499.45	7.66	1.53	2.47
	2008-09	524.09	9.20	1.76	2.58
	2009-10	554.74	9.19	1.66	2.93
	2010-11	653.91	10.92	1.67	3.07

The cost of collection in 2010-11 was increased by 0.01 *per cent* as compared to the year 2009-10. The reasons of variations were called for from the Department and the reply is awaited (December 2011).

3.6 Impact of Audit Reports

3.6.1 Revenue impact

During the last five years, Audit through its audit reports had pointed out non/short levy etc. involving revenue implication of ₹ 84.89 crore in 4,322 cases. Of these, the Department/Government had accepted audit observations in 2,407 cases involving ₹ 27.19 crore and recovered ₹ 12.89 crore in 457 cases. The details are shown in the following table:

(₹ in crore)

Year	Number of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	71	798	3.13	228	19.49	128	6.34
2006-07	49	585	54.75	368	0.73	88	1.33
2007-08	51	762	5.05	645	4.18	82	0.78
2008-09	84	1,276	12.40	514	2.25	107	1.71
2009-10	61	901	9.56	652	0.54	52	2.73
Total	316	4,322	84.89	2,407	27.19	457	12.89

In the context of large scale pendency of audit objections, Government may ensure holding of Audit Committee Meetings regularly for expeditious settlement of the pending paragraphs. As regards insufficient recovery against accepted cases, Department may review the cases to ensure recoveries.

3.7 Working of internal audit wing

Internal audit is intended to examine and evaluate the level of compliance with the rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any Department. However, no internal audit wing exists in the Department.

3.8 Results of audit

Test check of the records of 72 units relating to taxes on vehicles during 2010-11 revealed irregularities involving ₹ 12.03 crore in 5,986 cases, which fall under the following categories:

(₹ in crore)			
Sl. No.	Categories	No. of cases	Amount
1.	'Performance Audit on the Computerisation in the Transport Department'	1	0
2.	Non-short recovery of MVT	1,915	9.32
3.	Other irregularities	4,070	2.71
	Total	5,986	12.03

During the year 2010-11, the Department accepted audit observations involving ₹ 6.20 crore in 2,622 cases and recovered ₹ 1.11 crore in 66 cases pertaining to the audit finding of previous years.

A few illustrative cases involving ₹ 0.79 crore and a **'Performance Audit on the Computerisation in the Transport Department'** are discussed in the following paragraphs:

Transport Department

3.9 Information Technology Review on “Computerisation in the Motor Vehicle Department”

Highlights

- Computerisation of the VAAHAN and SARATHI in Punjab was achieved in 19 and 13 DTOs and 30 and 26 SDMs, out of 20 DTOs and 52 SDMs respectively, due to delay as well as lack of systematic approach in procurement, establishment and implementation of the system in all the districts/Sub-Divisions. None of the DTOs of the State except DTO, Ropar in total and DTO Mohali in parts had digitized the old records related to VAHAN. Similarly none of the DTOs of the State had digitised the old records related to SARATHI. However, this work was assigned afresh and was undertaken by the BOOT(Build Own Operate and Transfer) operator from 20 July 2011 for the entire State.

(Paragraphs 3.9.7, 3.9.7.1 and 3.9.7.2)

- Absence of IT Policy and documentation and lack of change management control as well as non-preparation of Business Continuity Planning have exposed the system to risk.

(Paragraphs 3.9.7.3 and 3.9.7.4)

- Plying of vehicles with lapsed registration, non-mapping of rule for calculation of fine on late registration of vehicles raised serious concern about the integrity and reliability of the system. Delay in updation of rates in the system led to short recovery of tax.

(Paragraphs 3.9.8.1 and 3.9.8.2, 3.9.8.4)

- Inadequate validation checks in VAHAN resulted in registration of vehicles with identical chassis and engine number and registration of two or more vehicles with same insurance cover note, short recovery of registration fee as seen in 830 cases in five DTOs.

(Paragraph 3.9.10.1, 3.9.10.3 and 3.9.10.4)

- Missing receipt numbers in VAHAN, generation of fake receipts led to manipulation of process of registration of vehicles for generating registration number as per choice of the applicant without charging the prescribed fee for choice number.

(Paragraphs 3.9.10.7 and 3.9.10.8)

- Lack of Physical and logical access controls alongwith appropriate system of segregation of duties and non-provision of Audit Trail diluted the responsibility and accountability of officials apart from monitoring of the system.

(Paragraphs 3.9.10.10 and 3.9.10.11)

- Missing receipt numbers in SARATHI raised serious concerns about the reliability of the system.

(Paragraphs 3.9.11.2)

- Due to deficiency in input controls in SARATHI, we found some instances issuance of driving licences to those who did not possess the minimum educational qualification and minimum age.

(Paragraph 3.9.11.1, 3.9.11.3)

3.9.1 Introduction

The Transport Department (TD) of the Government of Punjab functions under the provisions of Section 213 of Motor Vehicles Act, 1988 (MV Act) for enforcement of the provisions of Motor Vehicles Act, 1988, Punjab Motor Vehicles Taxation Act, 1924 (Amended 1993) and the rules framed thereunder. The National Informatics Centre (NIC) developed two application softwares, "VAHAN" and "SARATHI" on the request of Ministry of Road Transport and Highways, Government of India (MoRTH), for creation of uniform database. The objective of the VAHAN and SARATHI was to develop a National Register (NR) from State Register (SR) by developing and providing uniform software to ensure that documents are readable across the country through interconnectivity amongst District Transport Offices (DTOs) and National Registers for motor vehicles and driving licenses. The National Informatics Centre Services Inc., Ministry of Communication and Information Technology, New Delhi (NICS) provided ₹ 79.05 lakh in the account of Punjab State e-Governance Society functioning under Department of Information & Technology, Govt. of Punjab for implementation of the SARATHI and VAHAN, a mission mode project of National e-Governance Programme (NeGP), as a pilot project at Ropar. The project aimed at implementation of customized "VAHAN" and "SARATHI" software applications for issue of Driving Licenses, Registration Certificates, Permits, Taxes, Fitness of Vehicles and Enforcement. The Pilot project was implemented (November 2005), successfully, in two districts viz; Ropar and Mohali (a new district formed out of Ropar).

The Government of Punjab ordered (December 2010) that receipt of application for Driving License and Registration certificate as well as delivery of documents relating to transport services will be provided through Suwidha (Single User Window for Disposal and Helpline for Applicants) centers operating under the administrative control of the respective Deputy Commissioner.

3.9.2 Organisational set up

At apex level, Principal Secretary, Transport Department is responsible for formulation of policies programmes and their implementation by the Department. In response to duties, he is assisted by State Transport Commissioner (STC) and two Additional Transport Commissioner/Joint Transport Commissioner and a Deputy Controller, Finance and Accounts (DCF&A) at headquarter. There were 20 DTOs functioning under STC and each one was headed by a District Transport Officer (DTO) who ensured due observance of rules and maintains the records of receipts of taxes and fees. Besides this, there were four¹ Regional Transport Authorities (RTAs) for regulating the use of transport vehicles in the State in conformity with the MV

¹ Bathinda, Ferozepur, Jalandhar and Patiala.

Act. Additionally, Sub Divisional Magistrates (SDMs) at Sub Division level were also entrusted with the work of registration of non transport vehicles and issue of driving licenses, in respect of such vehicles.

3.9.3 Information System set up

The SARATHI and VAHAN was provided free of cost to the States. There was separate database for each DTO in client server architecture with front end in Visual Basic 6.0 and database in SQL having window XP/2000 as operating software.

3.9.4 Audit Objectives

The audit objectives were to analyse;

- the implementation of VAHAN and SARATHI;
- the mapping of business rules into the application software;
- the correctness, completeness of the system implemented;
- reliability of general and security controls to ensure data security and audit trails;
- back up data was being taken regularly to prevent data loss and disaster management system was effective; and
- Internal Control mechanism was in place at States Level to monitor the implementation of the project

3.9.5 Scope of audit and methodology

The present review was conducted by test checking the records in the office of STC as well as the data relating to the services provided by the five² DTOs and one RTA at Patiala, for the period from 2006-11 which were analysed by using the Computer Assisted Audit Tool, namely Interactive Data Extraction & Analysis (IDEA). An exit conference was held on 22 December 2011 with the STC in which important audit findings were discussed.

3.9.6 Audit criteria

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

- Motor Vehicles Act, 1988
- Central Motor Vehicle Rules, 1989
- Punjab Motor Vehicle Taxation Act, 1924
- Punjab Motor Vehicle Rules, 1989 and
- The notifications issued by Government of Punjab and Transport Department from time to time.

² Jalandhar, Kapurthala, Mohali, Patiala and Ropar.

Audit findings

Deficiencies noticed in planning and implementation of the system

3.9.7 Status of computerisation of the project

The table below indicates the status of Computerisation in the DTOs and SDM offices from where the data was to flow, seamlessly, into SRs:

Name of application	Number of offices			Transfer of data from field offices			Field offices not transferring the data into SR		
	DTOs	SDMs	Total	DTOs	SDMs	Total	DTOs	SDMs	Total
VAHAN	20	52	72	19	30	49	1	22	23
SARATHI	20	52	72	13	26	39	7	26	33

Out of the 20 DTOs and 52 SDMs offices, VAHAN was functional in 19 districts and 30 SDM offices, whereas, SARATHI was functional in 13 and 26 offices, respectively. It was noticed that of the 72 locations, data of VAHAN and SARATHI was transferred for State Registers (SR) through Virtual Private Network from 49 and 39 locations, respectively. However, We observed that data in respect of 23 and 33 locations of VAHAN and SARATHI, respectively was not transmitted to the SRs due to lack of hardware and skilled manpower. Further we observed that none of the DTOs of the State except DTO, Ropar in total and DTO Mohali in parts had digitized the old records related to VAHAN. Similarly none of the DTOs of the State had digitised the old records related to SARATHI. However, this work was assigned afresh and was undertaken by the BOOT operator from 20 July 2011 for the entire State.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

Partial utilisation/deployment of modules of VAHAN

(i) Enforcement Module

The VAHAN application was designed with five modules viz, Registration, Fitness, Permit, Taxation and Enforcement. Audit observed that one (Registration) out of four modules (Registration, Permit, Taxation and Fitness) was only used by the five DTOs, whereas one of the module i.e. Enforcement was not deployed by the NIC. Since the functions of the DTOs are interconnected/interdependent, the benefit of the system could not be derived due to partial utilisation/non-deployment of the modules. The reasons for non-implementation of Enforcement Module were called for (July 2011), no reply has been received (December 2011).

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

(ii) Permit Module of VAHAN

The VAHAN software had functionality to issue permits to stage carriage buses, mini buses and other commercial vehicles having seating capacity of seven or above. However the software was not put to use due to lack of following features;

- There was no option to enter the classification of vehicles under the field body type.
- The software did not have the provision to accept the half route under the field name number of trips per side/day.
- Further in case of variation in the route for extension and curtailment of the route the software did not have the features to record these changes.
- Further Rule 80-A of the Punjab Motor Vehicle Rules, 1989 provides that if the holder of a permit has spare different permits on the same route he may apply to the regional transport authority for clubbing those permits into one composite permit with the same number of return trip.
- The MIS reports like list of expiry of permits, cancelled permits, temporary permits etc were not generated by the software as a result of which appropriate monitoring and controlling could not be exercised by the competent authority.
- There was duplicity of efforts as two different databases (online and offline) were maintained for one service.

We observed that manual operations were performed as the matter was not taken up with NIC. However the work of issue of National Permits to the owners of the goods vehicles was performed online through National Permit System (NPS) but the TD had no access to the database.

When we pointed out RTA Patiala stated (August 2011) that matter would be taken up with the NIC Hqrs.' New Delhi and position will be intimated. Final outcome is awaited (December 2011).

During exit conference STC stated that newly appointed BOOT operator will be asked to implement all the modules of VAHAN.

3.9.7.1 Delay in computerisation of Transport Department

NICSI deployed (July 2006) M/s Pricewaterhouse Coopers (PWC) as project consultant for Statewide roll out of e-Governance project in Punjab and preparation of Request for Proposal (RFP) for appointment of service provider and vendor. The duration of the consultancy services was scheduled to be twelve months starting from 1 July 2006.

A Committee comprising of five members³ was formed (December 2005) for opening and evaluation of Expression of Interest for statewide roll out of the project after successful implementation of the pilot project. The committee was required to submit its recommendations to the High Powered Committee⁴ for finalisation of the tender. The meeting of the Committee was held (December, 2005) for selection of BOOT (Built Own Operate and Transfer) operator, where four companies were qualified on the basis of pre-qualification criteria. Audit observed that thereafter number of meetings was held for revision of the RFP document considering the suggestions made by

³ Secretary Transport, Director cum Secretary Department of Information Technology, Representative of Finance Department, State Informatics Officer (NIC Punjab), State Transport Commissioner and others.

⁴ Chief Secretary, Principal Secretary Finance, Secretary Transport, Director Information Technology, State Informatics Officer, NIC Punjab, State Transport Commissioner Punjab and others.

the Companies in the pre bid conference but nothing concrete came out of the meetings.

We further observed that the TD failed to select the BOOT operator for statewide roll out of the project due to non-finalisation of RFP till December 2010 and hence the services of PWC could not be utilised. This also resulted in unfruitful expenditure of ₹ 4.65 lakh (10% of ₹ 46.50).

The Deputy Controller Finance and Accounts (DCF&A) in its reply while admitting the delay between July 2007 and December 2010 stated that the PWC was requested (July 2010) to redraft the RFP document however the PWC intimated (July 2010) that work order for consultancy services had expired in July 2007. The TD had not utilised the services of the PWC during currency of tenure of the contract.

3.9.7.2 Supply of Computer hardware

MoRTH conveyed (July 2009) its approval of funds amounting ₹ 2.18 crore for computerisation of DTO's and RTAs. The hardware items were received from MoRTH during May-November 2010 in the district offices. We observed (January-October 2011) that the stock register of IT Assets prepared, if any, were not made available to audit due to which neither allocation nor utilization of hardware could be verified.

Audit observed that though the hardware was received by DTOs but the requisite infrastructure, trained manpower and funds for operational and maintenance cost were not made available due to lack of systematic approach for implementation of the system

The DCF&A while responding (January 2011) to an audit query stated that the office of STC had not purchased any hardware for its DTOs but the same was supplied by the NIC, directly.

During exit conference STC stated that as no manpower was available with Transport Department, it was decided to hand over the hardware to SUWIDHA centres for providing transport related services through suwidha centres.

3.9.7.3 Absence of IT Policy and documentation

Before taking up an IT project, it is necessary to evolve a long/short term IT policy addressing the methodology of developing, acquiring, implementing and maintaining the information systems and related technology.

Audit observed that the TD had not formulated and documented the IT strategy/policy. In the absence of an IT strategy, the progress of implementation of VAHAN and SARATHI could not be verified. Audit further observed that no IT security policy for safeguarding the IT Assets was formulated by the TD.

Audit observed that the NIC did not hand over the relevant documents like User Requirement Specifications, Software Design Document to the TD. In absence of such records, audit could not verify the adequacy of this documentation.

When we pointed out (January 2011), the DCF&A in its reply stated (January 2011) that no such policies/documentation were available with the TD.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.7.4 Lack of change management control

Modifications suggested by DTO are sent to state coordinator, who in turn takes it up with NIC, Hqrs. The updated releases are provided to the DTOs but the procedure for change management was neither documented nor there were any procedure for authorisation of the changes in the system at an appropriate level, there was no system of documenting the changes carried out which was fraught with the risk of unauthorised changes not being detected.

When we pointed out (January 2011), the DCF&A in its reply stated (January 2011) that no change management policy was formulated by the TD.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.7.5 User manual not provided

The staff in the computer Department may be the only staff with a detailed knowledge of the interrelationship between the source of data, how it is processed and how the output is distributed and used. It is possible that the IT personnel will be aware of any control weaknesses which exist. Its staff may also be in a position to alter transaction data or even the financial applications which process the transactions. Audit observed that;

- No personnel manual clearly depicting the duties and responsibilities of the staff working in computerized environment were formulated by the TD.
- The Software/Application has the provision to define access rights of users for job rotation. However, the allotment of seats was being made arbitrarily without any periodicity/system.
- The operational staff was not trained before deploying them on "VAHAN" and "SARATHI" application. Further Training Manual for imparting the training was not made available by the NIC as a result of which the DTOs had expressed inability for efficient implementation of the system.
- The Suwidha centers were performing the operations on behalf of the TD, however no Memorandum of Understanding (MOU) was signed with the Suwidha for regulation of work.

We reported the matter to the DTOs (January-July 2011), the DTO, Jalandhar in its reply admitted (July 2011) that no personnel manual was prepared/received from STC office, no system of job rotation of users was in vogue and NIC neither formulated the training manual nor trained the operational staff. However, remaining DTOs did not respond to the audit observation.

VAHAN application system

3.9.8 Mapping of Business Rules

3.9.8.1 Non-mapping of rule for calculation of fine on late registration of vehicles

Rule 47 of the PMVR provides that if the owner of a motor vehicle fails to make an application for registration within the period of one month from the date of purchase then he/she is liable to pay fine of ₹ 10 to 50 in addition to the fee specified for registration. Till then vehicle ply on temporary registration numbers.

An analysis of the data in respect of five DTOs, revealed that the fine as per the provision stated above was not auto calculated by the software, leading to short levy of fine in 38323⁵ cases. The quantum of revenue loss due to non mapping of rule in VAHAN levy of fine on late registration of vehicles could not be

verified due to large volume of records. However, audit requisitioned 197⁶ cases to test check the recovery of fine, out of which 48⁷ cases were provided to audit, however the due fine in 30⁸ cases was not/short collected affecting the completeness as well as integrity of the database.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.8.2 Delay in mapping of rates in the system

In exercise of the powers conferred by Section 3 of the Punjab Motor Vehicles Taxation Act, 1924 the Government of Punjab notified (February 2011) the enhanced rates of the motor vehicle tax based upon the value of the vehicle.

An analysis of the database related to four⁹ DTOs revealed that in 665¹⁰ cases, motor vehicle tax was short collected to the tune of ₹ 182.33¹¹ lakh. Audit observed that due to lack of any change management procedures the rates in the

software were not modified timely as the modification rights were not available with the TD. The modification can be done only by NIC Hqrs, New Delhi. The required changes were sent by DTOs to NIC Punjab and they further forward the requirement to NIC Hqrs. This process took considerable time as a result of which the system calculated the motor vehicle tax at old rates.

Audit further observed that in DTO Jalandhar the registration date of registration certificates was altered through administrator privileges granted to

⁵ Jalandhar:2763, Kapurthala: 2218, Mohali: 20436, Patiala: 7884 and Ropar: 5022.

⁶ Jalandhar 20, Kapurthala 25, Mohali 25, Patiala 100 and Ropar 27.

⁷ Kapurthala 16, Mohali 12, Patiala 13 and Ropar 7.

⁸ Kapurthala 16, Mohali 5, Patiala 2 and Ropar 7.

⁹ Jalandhar, Mohali, Patiala and Ropar.

¹⁰ Jalandhar 607, Mohali 49, Patiala 6 and Ropar 3.

¹¹ Jalandhar ₹ 170.25 lakh, Mohali ₹ 11.00 lakh, Patiala ₹ 0.61 lakh and Ropar ₹ 0.47 lakh.

the Data Entry Operators to give an impression that the Registration Certificates were generated on or before 28/02/2011 i.e. the effective date of implementation of the new tax rates.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.8.3 Non-availability/mapping of MIS Reports

MIS reports are important for effective monitoring and controlling the functions of the Department. The requirements can be designed into the software for generation of MIS reports. The MIS reports viz; Imported vehicles, unfit vehicle, other state vehicles, ex-army vehicle, tax-exempted vehicle, private vehicles, commercial vehicles, goods vehicles, vehicles of A Class, hypothecated vehicles were important for effective monitoring and controlling the functions of the Department for maximising the collection of the revenue. Audit observed that such reports were neither available in the software nor the matter was taken up with NIC for designing the same in the VAHAN.

3.9.8.4 Non availability of Management Information System (MIS) reports identify the vehicle required to be re-registered

The Section 41 of the MVT Act provides the validity of the registration of the motor vehicle (other than transport vehicle) and Rule 52 of the CMVR provides for renewal of registration of vehicle after 15 years.

An analysis of VAHAN database in the office of the five¹² DTO's for the period of the review revealed that 54499¹³ vehicles had their registrations expired. The owners of the vehicles had not re-registered their vehicles in contravention to the provisions stated, *ibid*.

Audit further observed that Management Information System (MIS) reports were not available in the software to identify the vehicle required to be re-registered after obtaining the fitness certificate from the competent authority.

During exit conference, STC stated that all the vehicles with lapsed registration may not come for re-registration due to the fact that some vehicles might have been declared condemned, some might have stolen, total loss in accidents etc., however, he assured that necessary instructions will be issued to field offices to record such instances. Reply of the STC is not acceptable as the details regarding stolen of vehicles, total loss in accident should be entered in the records of the DTO.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

¹² Jalandhar:, Kapurthala: , Mohali: , Patiala: and Ropar:.

¹³ Jalandhar 1, Kapurthala 53, Mohali 954, Patiala 1 and Ropar 53490.

Data Accuracy

3.9.9.1 Inaccuracy in Fancy numbers Master Table

(i) An analysis of fancy number table of VAHAN database as entered in the office of the DTO, Mohali revealed that registration number 440 though falls in the category of reserved numbers under serial number 3 Group No.4 (d) in the Sixth Schedule to the PMVR, but the same was not entered into the fancy number table. However test check of files confirmed the receipt of paid number fee of the number. Further in DTO Patiala, it was noticed that 616 registration numbers which did not fall in the category of reserved numbers in the Sixth Schedule to the PMVR were entered in the fancy number table as a result of which the system treated and allotted these numbers as fancy numbers. Further the fees to be charged for allotting these registration numbers has been entered as one rupee whereas the correct fee for reserved registration number is Rupees one thousand. Further the State Code which is PB for Punjab has been entered as "P for the reserved numbers which fall in the Sixth Schedule to PMVR, 1989. Evidently, the master tables were not maintained/updated correctly.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.9.2 Discrepancy in masters Table

Analysis of Action table and VHCLASS_CD table of VAHAN database as maintained in the office of five DTOs revealed that there was inconsistency in data in both the tables for tractor (Private). Vehicle class code for tractor (private) in VHCLASS_CD table has been entered as 19 whereas A_VCHD field in action table shows tractor (private) as 31 which was the code for omnibus.

Further analysis of VHCLASS_CD table (master table for vehicle class) of VAHAN database as maintained in the offices of five DTOs revealed that for the vehicle omnibus, two "CLASS_CD" namely 31 and 72 were assigned and in DTO, Ropar 634 omnibus were registered with vehicle class code as 31 and 15¹⁴ omnibus were registered with vehicle class code as 72, indicating that different vehicle codes were assigned due to inappropriate assignment of two codes to same vehicle.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10. Data Safety and Security

3.9.10.1 Lack of input controls in VAHAN

An analysis of registration data of vehicles in VAHAN, made available to us by the five DTOs¹⁵, revealed the following discrepancies;

- a) In 116647¹⁶ cases manufacturing month of vehicle was shown as zero.
- b) In 58498¹⁷ cases the unladen weight and in

¹⁴ DTO, Mohali:8 and DTO, Ropar:7.

¹⁵ Jalandhar, Kapurthala, Mohali, Patiala and Ropar.

¹⁶ Jalandhar:260, Kapurthala:536, Mohali:5919, Patiala:358 and Ropar:1,09,574.

¹⁷ Jalandhar:158, Kapurthala:189, Mohali:6262, Patiala:314 and Ropar:51,575.

- 435307¹⁸ cases laden weight of vehicle was shown as zero.
- c) In eight¹⁹ cases purchase date is shown later than registration date and in 136652²⁰ records purchase date has been shown as zero.
- d) In 5368²¹ cases of non-transport vehicles the seating capacity was shown as equal to standing capacity.
- e) In 57²² cases pertaining to goods vehicles laden weight and unladen weight has been shown as equal.
- f) In 7336²³ cases manufacturing year of vehicle was shown as zero and in four²⁴ cases manufacturing month was recorded as negative figure.
- g) In 33670²⁵ cases cubic capacity (cc) of the vehicle was blank due to lack of input controls.
- h) In 80890²⁶ records "maker model" of the vehicle was blank.
- i) In 781²⁷ cases registration date was earlier than receipt date of application.
- j) In 35399²⁸ cases chassis number was numeric and in 274²⁹ cases it was only alpha character
- k) The Cubic Capacity of the Maruti 800 is 786 but in 103³⁰ cases, the cubic capacity of the Maruti 800 was entered as ranging from 1.47 to 8189 CC.
- l) Sales figure in 160262³¹ cases was shown as zero due to incomplete input of data.
- m) 56³² users have generated 20475³³ receipts on Saturday and Sundays though these are observed as public holidays.
- n) In respect of two wheelers and private cars seating capacity was incorrectly entered in 3198³⁴ cases.
- o) A copy of FIR is required for obtaining duplicate Registration certificate, it was noticed that in seven³⁵ cases the owner managed to get duplicate registration certificate issued on the basis of previously lodged FIR having same number and date. Whereas in 16³⁶ cases deal date was earlier than FIR date and in 27³⁷ cases FIR number was either blank or contained incorrect data.

¹⁸ Jalandhar:1,34,811, Kapurthala:55,754, Mohali:51,902, Patiala:44,898 and Ropar:1,47,942.

¹⁹ Jalandhar:2, Kapurthala:1, Patiala:3 and Ropar:2.

²⁰ Jalandhar:256, Kapurthala:341, Mohali:7096, Patiala:34 and Ropar:128925.

²¹ Jalandhar:91, Kapurthala:18, Mohali:5201, Patiala:14 and Ropar:44.

²² Jalandhar:2, Mohali:31, Patiala:14 and Ropar:10.

²³ Jalandhar:251, Kapurthala:132, Mohali:5037, Patiala:332 and Ropar:1584.

²⁴ Jalandhar:1, Mohali:1, Patiala:1 and Ropar:1.

²⁵ Jalandhar 193, Kapurthala 177, Mohali 418, Patiala 353 and Ropar 32529.

²⁶ Jalandhar 292, Kapurthala 163, Mohali 1460, Patiala 367 and Ropar 78608.

²⁷ Jalandhar 622, Kapurthala 06, Mohali 26, Patiala 115 and Ropar 12.

²⁸ Jalandhar 1185, Kapurthala 2360, Mohali 7924, Patiala 930 and Ropar 23000.

²⁹ Kapurthala 5, Mohali 53, Patiala 16 and Ropar 200.

³⁰ Jalandhar 4, Kapurthala 1, Mohali 37, Patiala 2 and Ropar 59.

³¹ Jalandhar 1880, Kapurthala 1106, Mohali 19873, Patiala 123 and Ropar 137280.

³² Jalandhar 36, Kapurthala 4, Mohali 2, Patiala 13 and Ropar 1.

³³ Jalandhar 7306, Kapurthala 2442, Mohali 51, Patiala 10665 and Ropar 11.

³⁴ Jalandhar 310, Kapurthala 43, Mohali 441, Patiala 149 and Ropar 2255.

³⁵ Mohali:3 and Ropar:4.

³⁶ Mohali:4 and Ropar:12.

³⁷ Jalandhar: 1, Kapurthala:1, Mohali:13, Patiala:1 and Ropar:11.

Data inconsistencies

- a) In 916³⁸ cases engine number was blank and 500³⁹ cases engine number and chassis number started with special character.
- b) In 270⁴⁰ cases owner name and in 3290⁴¹ cases father name of the owner was invalid (one or two alphabets).
- c) In 64⁴² cases the registration number of vehicle was incorrectly entered.
- d) In 71⁴³ cases the basic detail of owner was not entered.

The data in these fields indicated that the input as well as validation checks were not built in the backlog entry form of VAHAN system and/or the incorrect data was not checked/verified by responsible officer/officials of the Department before validation due to which inconsistent data resided in the database.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.2 Absence of Business Continuity and disaster recovery plan

Business continuity planning (BCP) is necessary for recovery of the business processes with minimum loss to the business and restores the system within minimal possible time, in the event of a disaster. Considering the criticality of the system, the Transport Department (TD) was required to formulate, document and test disaster recovery plans and ensure that staff were made aware of their responsibilities to ensure business continuity.

Non formulation of BCP had following impacts:

- Backups were being taken at irregular intervals.
- No backup register was prepared.
- Non-testing of stored backups was being done to check data restoration.
- Non-storing of backup data off site in fire proof cabinets.
- Non-formulation of antivirus policy due to which different freeware were installed on the server posing a threat to the data.
- No Insurance cover for the computer hardware/IT Assets against robbery etc. were taken.

When we pointed out (January 2011), the DCF&A in its reply stated (January 2011) that no BCP was formulated by the TD.

Further NIC, Punjab Unit while responding to an audit query stated that no disaster recovery plan for State Register (SR) was prepared by NIC, Headquarters, New Delhi however the back up was taken on SAN (Storage Area Network) and Tape Drives.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

³⁸ Jalandhar 37, Kapurthala 126, Mohali 349, Patiala 330 and Ropar 74.

³⁹ Mohali 399 and Ropar 101.

⁴⁰ Mohali 260, Patiala 2 and Ropar 8.

⁴¹ Jalandhar 1, Kapurthala 2178, Mohali 361, Patiala 229 and Ropar 521.

⁴² Jalandhar 2, Kapurthala 4, Mohali 14, Patiala 4 and Ropar 40.

⁴³ Jalandhar 5, Kapurthala 2 and Patiala 64.

3.9.10.3 Registration of vehicles with identical chassis and engine number

Engine number and chassis number are unique numbers allotted by the manufacturer to a vehicle and two vehicles cannot have same engine or chassis numbers which are essential for the purpose of assignment of a unique registration number.

An analysis of data of five DTOs for the period of review revealed that in 1127⁴⁴ cases, different registration numbers were assigned to vehicles having identical chassis and engine number. Evidently, 1127 registration numbers were assigned to 556⁴⁵ same vehicles.

In case of chassis number a check is embedded in the software which did not allow input of duplicate chassis number. However, it was observed that the system was surpassed by putting an extra symbol such as #, *, \$ etc. while entering the chassis number and allowing the vehicle to be registered with another registration number having identical chassis and engine number, posing a serious security concern, as well as entry of incorrect data into SR.

We requisitioned 712⁴⁶ relevant records, records in respect of 47⁴⁷ vehicles (Form 24, Screen Report of Vehicle, Invoice and Form 20) were supplied to audit, out of which duplicate chassis numbers were allotted to 18⁴⁸ vehicles.

During exit conference, STC stated that this is very serious and instructed Deputy Controller (F&A) to verify the cases.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.4 Short recovery of registration fee

Rule 81 of the Central Motor Vehicles Rules, 1989 (CMVR) provides for registration fee for each class of vehicles. In the "VAHAN" software, there was a provision for auto-calculation of the registration fee as per the class of the vehicle.

Data analysis for the period from 2006-11 in respect of five DTOs revealed that the applicable registration fee amounting to ₹ 1.07⁴⁹ lakh was under calculated by the software in 830⁵⁰ cases which shows that the system was not working properly. The relevant files were requisitioned to verify

the revenue loss; however the same were not shown to audit.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.5 Un-reliable data in the database

The vehicle class as well as the sale amount forms the basis for auto calculation of registration fee as well as tax in the system. After generation of receipt number, owner's detail was entered into the system and a vehicle

⁴⁴ Jalandhar 50, Kapurthala 24, Mohali 554, Patiala 142 and Ropar 357.

⁴⁵ Jalandhar 25, Kapurthala 12, Mohali 270, Patiala 71 and Ropar 178.

⁴⁶ Jalandhar 22, Kapurthala 24, Mohali 554, Patiala 22 and Ropar 90.

⁴⁷ Kapurthala 02, Mohali 24, Patiala 12 and Ropar 09.

⁴⁸ Mohali 09, Patiala 06 and Ropar 03.

⁴⁹ Jalandhar ₹ 0.11 lakh, Kapurthala ₹ 0.37 lakh, Mohali ₹ 0.42 lakh, Patiala: ₹ 0.07 lakh and Ropar ₹ 0.10 lakh.

⁵⁰ Jalandhar 64, Kapurthala 332, Mohali 267, Patiala 47 and Ropar 120.

registration number was auto generated by the system on approval of above details through “dto’s” login.

Data analysis of the DTO, Mohali revealed that in 41946 records, there was mismatch between amount due and amount recovered against each registration number. This was due to the fact that the details of the vehicles were interchanged to favour any person by allotting the choice number to him. Further audit scrutiny of the “owner admin” table revealed that in 3543 cases the details of the owners were altered. Since the vehicle class was changed in 300 cases the data was rendered unreliable. Though the sale value is committed and forms the basis of tax calculation however the alteration of detail of the owner of the vehicle raised serious concern about the integrity of the system.

Further audit requisitioned manual records to test check unreliable data in the database, DTO, Mohali expressed inability to produce the complete records due to renovation of the building. However, two manual records and seven screen reports of vehicle were provided to audit, which indicated that data was altered but the sale value of the vehicle was committed and could not be altered, the detail of the owner was interchanged, affecting the reliability as well as integrity of the database.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.6 Duplicate challan numbers

The challan numbers issued by the banks bear unique number and cannot be allotted to any other challan in the same bank. The challan number is captured into the concerned field in the VAHAN as a proof of payment.

An analysis of the database of five test checked DTOs revealed that in 2104⁵¹ cases duplicate challan numbers were noticed due to lack of input controls in the software and same challan numbers were used again and again for carrying out the transactions.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.7 Missing receipt numbers in VAHAN

Data analysis of VAHAN database in respect of receipt number table as maintained in the office of five DTOs for the period of review revealed that 1540⁵² receipt numbers were missing in 35⁵³ series of the database.

The receipt numbers on receipt of cash are auto-generated by the software. Missing receipt numbers not only affected the integrity of the database, adversely, but also raised serious concerns about the reliability of the system. It was further observed that the staff of the DTO, Jalandhar was not trained as a result of which manual receipts were issued to the applicants and the receipt number of such receipt books, issued by STC office, were entered into the receipt master so that the software could auto generate such receipt numbers.

⁵¹ Jalandhar 492, Kapurthala 284, Mohali 657, Patiala 518 and Ropar 153.

⁵² Jalandhar:9, Kapurthala:1427, Mohali:14, Patiala:73 and Ropar:17.

⁵³ Jalandhar:1, Kapurthala:9, Mohali:6, Patiala:13 and Ropar:6.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.8 Manipulation of VAHAN System for generation of choice number

The registration fee, hypothecation fee, vehicle tax on registration of vehicle and fine on belated registration are received in cash/through bank. A unique receipt number is automatically generated, sequentially, by the VAHAN software on receipt of application from the applicant. The receipt number is linked for the generation of vehicle registration number through the VAHAN. The daily receipt of cash is deposited into the bank on the next working day. The software has an option of backlog entry for registration to enter detail of vehicles registered prior to computerisation, to reserve special vehicle numbers.

An analysis of data of DTO, Mohali revealed that in 1341 cases receipt numbers generated were not in accordance with the receipt master. In these receipts the registrations have been carried out and a fraudulent sum on account of alteration of vehicles amounting to ₹ 0.67 lakh was shown as collected through challans but actually there was no collection of money against these challans. Further audit analysis of these receipts revealed that 295 fictitious entries were entered through the backlog option for creation of a reserve of selective vehicle numbers for allotting it to prospective applicant seeking that choice number. Since the receipt number is mapped for allocation of a registration number, a fake receipt is generated by users through option of alteration of vehicle by prefixing/suffixing the string to the vehicle number in the challan number field, to make it the receipt number due to bug in the software. There is a bug in the software that if one enter more than four numeral in the challan number field, the system generate it as the receipt number.

Thus due to a bug in the software the check of auto generation of receipt number by the system, sequentially, was surpassed.

DTO, Mohali, in its reply stated that the files pertained to old series of vehicles could not be provided due to the renovation of the building. However, three files produced to audit revealed that challan did not include ₹ 50 towards alteration fee of the vehicle. The DTO while admitting the lapse further stated that due to inadequate training of the staff such irregularity occurred, however the operational staff was strictly instructed not to generate such receipts and indulge in this practice in future and the matter was also being taken up with NIC for incorporation of necessary controls in VAHAN. Reply of the DTO is not acceptable as this is a serious lapse which led to manipulation of process of registration of vehicles for generating registration number as per choice of the applicant without charging the prescribed fee for choice number.

Further, during the exit conference, STC stated that this is a serious issue and the matter will be examined.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.9 Registration of two or more vehicles with same insurance cover note

Rule 47(1) of the CMVR provides that application for registration of vehicle shall *inter-alia* be accompanied by a valid insurance certificate

Data analysis of vehicle insurance table of VAHAN database as maintained in the office of the five DTOs for the period of review revealed that duplicate cover note numbers in respect of prime insurance companies as were

entered for two or more vehicles detailed below:

Company/Category	Total number of duplicate/multiple insurance cover note numbers
Blank	12 ⁵⁴
Bajaj Allianz Ltd.	23 ⁵⁵
New India Assurance Company	236 ⁵⁶
ICICI Lombard Gen Insurance	238 ⁵⁷
National Insurance Company	1924 ⁵⁸
Oriental Insurance Company	2629 ⁵⁹
Royal Sundaram Insurance Company	3328 ⁶⁰
Any other	849 ⁶¹
United Insurance Company	637 ⁶²
	9876⁶³

Thus, the system being used is fraught with the risk of same insurance cover notes being used again and again for registering more than one vehicle due to lack of controls in the VAHAN to detect duplicate and null entries. Scrutiny of manual records revealed that in some cases it was due to entering of book number in place of cover note number.

The matter was reported to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.10 Unauthorised access due to lack of logical access controls in VAHAN

Segregation of duties avoids the possibility that a single person could be responsible for diverse and critical functions in such a way that errors or misappropriation could occur and not be detected in a timely manner in the normal course of business processes. Segregation of duties is an important means by which fraudulent and or malicious acts can be discouraged and prevented.

Segregation of duties for, access to the computer, data etc. can be limited and relates to the particular level of responsibility of the authorised individual. Transaction authorisation is the responsibility of user Department/Data owner.

⁵⁴ Mohali 2 and Ropar 10.
⁵⁵ Jalandhar 15, Kapurthala 1, Mohali 1 and Ropar 6.
⁵⁶ Jalandhar 146, Kapurthala 1, Mohali 7, Patiala 2 and Ropar 80.
⁵⁷ Jalandhar 237 and Kapurthala 1.
⁵⁸ Jalandhar 975, Kapurthala 137, Mohali 331, Patiala 273 and Ropar 208.
⁵⁹ Jalandhar 470, Kapurthala 160, Mohali 1230, Patiala 150 and Ropar 619.
⁶⁰ Mohali 3327 and Ropar 1.
⁶¹ Jalandhar 113, Kapurthala 97, Mohali 10, Patiala 88 and Ropar 541.
⁶² Jalandhar 259, Kapurthala 78, Mohali 110, Patiala 64 and Ropar 126.
⁶³ Jalandhar 2215, Kapurthala 475, Mohali 5018, Patiala 577 and Ropar 1591.

Scrutiny of data of VAHAN in five DTOs revealed following discrepancies;

- No documented procedure to the user privileges for authorizing access to the system was followed by the Department. Further, In the case of DTO, Mohali the privileges of “administrator” and “dto” given to the clerks may create a potential control risk to the integrity of data and system as a whole.
- Further, data analysis of DTO, Mohali revealed that there were 14 users in the users master table whereas, as per the information supplied, VAHAN software was being used by two officials operating four users indicating that 10 additional users were active apart from four users, clearly posing logical security risk to the database.
- In DTO, Mohali there were multiple users making use of one userid, ie;“Malkeet, raising serious concerns of responsibility/accountability as the functions of receipt of cash/generation of receipt are performed through it.
- The userid’s “malkeet” and “Vijay” in DTO, Mohali and Jalandhar respectively were not deactivated, however, the said officials/users got transferred from the offices.
- 50 userid’s⁶⁴ had the similar password indicating lack of knowledge of secrecy and security of password as no password policy was formulated by the Department.
- In DTO, Jalandhar, one of the clerk dealing with new Registration Certificates was having seven userids with the name such as “surjeetkaur”, “surjeetkaur1”, “surjeetkaur2” etc. which clearly indicates that one to one userid’s to Data Entry Operators were not assigned to define the respective roles and responsibilities and multiusers were working on behalf of one dealing clerk by using different userids. Similarly two userids (Kantadevi and Kantadevi 1) were assigned to Cashier raising serious concerns of responsibility/accountability as the functions of receipt of cash/generation of receipt are performed through it.
- The Computers and the server were not protected by fire safety alarm and fire extinguishers, for mitigation of loss to the IT Assets, in case of fire/mishap.
- Seven users in case of DTO, Mohali and 49 users in DTO Jalandhar, respectively were not in the users master table but the above mentioned users logged in the VAHAN application and entered certain transactions in the database. Indicating that users were created and deleted after performing certain operations as the users table was not properly managed. Further in 2351 and 29 transactions in DTO, Mohali and Jalandhar “deal cd” was not captured by the system, raising integrity concerns.
- In the users master table relating to DTO, Mohali, the name of the officer/official logging into the system was not entered in 13 cases out

⁶⁴

Jalandhar:8, Kapurthala:10, Mohali:2, Patiala:28 and Ropar:2.

of 14 cases, the name such as clerk, admin, backlog operator etc. were entered as a result of which the responsibility/accountability could not be linked up.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.10.11 Non-provision of Audit Trail

Audit trail is incorporated into an IT System for tracing an item from input through its final stage and depicts the flow of transaction at every point of processing up to the output stage.

Scrutiny of VAHAN disclosed that:

- TD failed to include the audit trail options to capture details of terminal logon, start up time, activities of users, etc.
- Though the operation date was captured by the system in case of owner table but the time of the operation was not captured by the system.
- No system administration register and daily activity register was maintained.
- No logs for recording changes to the Users Master and Users Permission table were generated by the system.

Due to non-provision of audit trail in the software the TD could neither entrust the periodic review of audit trail to any responsible officer nor could documented procedure be evolved for regular monitoring of audit trail/logs to watch deviations in access trends and to ensure compliance of instructions relating to system security.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

SARATHI

3.9.11 Data accuracy in SARATHI

3.9.11.1 Lack of input controls in SARATHI

An analysis of SARATHI database made available to us by five DTOs revealed the following discrepancies;

- As per Section 9 of the CMVR, the person to whom a Transport vehicle license is to be issued should possess minimum qualification not less than 8th Standard. It has been observed that 13629⁶⁵ Transport licenses were issued, out of which in 7303⁶⁶ records the qualification field was blank and in 3133⁶⁷ records the qualification field was entered as "Not Specified". However, manual verification of three files supplied to the audit by DTO Mohali revealed that the applicants had furnished the proof of minimum qualification whereas other four DTOs did not supply the records. Audit observed that, due to invalid

⁶⁵ Jalandhar 3101, Kapurthala 2334, Mohali 1199, Patiala 2734 and Ropar 4261.

⁶⁶ Jalandhar 50, Kapurthala 2176, Mohali 977, Patiala 2734 and Ropar 1366.

⁶⁷ Jalandhar 2, Kapurthala 15, Mohali 222 and Ropar 2894.

codes of qualification in master table, it accepted the data as “not specified” as well as blanks, affecting the completeness of the data.

- Audit observed that in 13 cases relating to DTO, Kapurthala the applicants did not possess the requisite qualification for obtaining driving license for transport vehicle as per database. However the manual record, though requisitioned, for verification of the same was not supplied.

The DTO, Mohali in its reply stated that no license were issued to the applicants without ensuring the criteria of minimum qualification, however due to lack of training, the same was not entered in the SARATHI database but assured the compliance in future. The other DTOs, however, did not reply to the observation.

3.9.11.2 Missing receipt numbers in SARATHI

Data analysis of SARATHI database in respect of PAYCH (Challan) table as maintained in the office of the DTO, Mohali till 31st March, 2011 revealed that the receipt numbers from 51 to 822 of “SA” series were missing in the database. The system auto generates a receipt number sequentially, and on cancellation of any receipt, new receipt number is assigned to the next transaction and the cancelled receipt moves to the cancellation PAYCHW (Cancellation Challan) table. Further analysis of the SARATHI database revealed that receipt number SA 2119 though cancelled on 12 June 2007, however the receipt number rests in the pay challan table. In another case, receipt number SA 9999 though cancelled on 07 May 2007 but the cash of ₹ 300 was collected on the same receipt number, i.e; SA 9999 on 31-12-2007.

The missing/cancelled receipt numbers not only affected the integrity of the database, adversely, but also raised serious concerns about the reliability of the system.

We reported the matter to the DTOs (July 2011), the DTO, Mohali in its reply stated that this may be a technical error of the software. The reply is not accepted as the matter was not brought to the notice of NIC.

3.9.11.3 Irregular issue of license to persons below the age of eighteen years

Section 4 of the MV Act provides that no person under the age of eighteen years shall drive a motor vehicle in any public place except Motor Cycle having engine capacity upto 50 CC.

An analysis of the SARATHI database for the period of review relating to office of the four⁶⁸ DTOs, revealed that in 11⁶⁹ cases learning license were issued to the persons below the age of eighteen at the time of issue of license in contravention to the provision of the Act. We further observed that in two out of six cases relating to DTO, Mohali the age of the applicant was less than 18 years even at the time of issue of permanent driving licenses.

⁶⁸ Jalandhar, Kapurthala, Mohali and Ropar.

⁶⁹ Jalandhar: 2, Kapurthala: 2, Mohali: 6 and Ropar: 1.

We further observed that in two⁷⁰ DTOs the said provision of the MV Act was partially entered as “Motor Cycle without Gear” but “below 50 cc” was not entered. Resultantly, “below 50 cc” was not printed on the driving license. In order to cross check, the manual records in 11 cases were requisitioned in audit, however one record relating to DTO, Kapurthala was only supplied to audit which indicated that the learner driving license was irregularly issued to the underage applicant. Reasons for the same were asked from the Department, they could not explain how it was made possible.

The DTO, Ropar in response to the audit observation initiated (October 2011) the action against the holder of the license, while DTO, Jalandhar expressed (July 2011) the inability to produce the records as the same was in the custody of Suwidha centre, Jalandhar. Whereas DTO, Mohali while expressing inability to produce the manual records due to renovation of the building replied that six learner licenses and two driving licenses have been examined and necessary corrective action has already been initiated by issuing notices to license holders. The DTO, Kapurthala did not respond to the audit observation.

Data safety and security in SARATHI

3.9.12.1 Physical and logical access controls

Application Software and data should be protected from unauthorized alteration by the use of appropriate physical and logical access controls. Physical controls include restriction on entry of unauthorised persons to the client’s site, buildings, computer rooms and each piece of IT whereas Logical access controls are restrictions imposed by the computer software.

Scrutiny of SARATHI data of the five DTOs, revealed the following discrepancies indicating logical access risks;

- It was observed that although each and every operator had different user Id and password, no documented password policy specifying the need to change the password periodically was circulated.
- Length of the password should be atleast of eight alpha-numeric characters. However, 106⁷¹ users were having password length of 3 to 7 characters.
- The software had no inbuilt arrangement for compulsory changing of password after a specified period.
- The unauthorised entry of persons put the system and data at risk of unauthorised intentional/accidental manipulation/destruction etc and for this purpose, the access to the server should be restricted. However, it was observed that in the office of the DTO, Mohali and Ropar, the server was placed in the same room where operators were working and it was not kept in isolation, posing a serious threat to the safety of data.
- The passwords were readable at the backend and were not encrypted posing a security risk.

⁷⁰ Jalandhar and Ropar.

⁷¹ Jalandhar:46, Kapurthala:11, Mohali:8, Patiala: 31 and Ropar:10.

- 27⁷² users had similar passwords as the users were not made aware of logical security risks.

Absence of physical and logical access control policy may attract unauthorised uses and poses threat to the integrity and security of the data and system as a whole.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.12.2 Online system of grant of permits

The MoRTH issued (August, 2010) the guidelines for implementation of electronic mode of grant/renew of national permits for goods carriage w.e.f 15 September 2010. The new online system provides that the transporter will apply for a new national permit or renewal of the permit to the RTA with authorization and application fee of ₹ 1200. The RTA after uploading certain data on the national permit web portal will advise the transporter to make payment of ₹15000 either by cash or internet banking. In case of payment by cash, the transporter will get a print out of automatically filled challan generated through the national permit portal. The transporter will get the challan stamped from any of the branch of State Bank of India (SBI) against payment of ₹ 15000. The actual electronic confirmation of the payment by cash will be uploaded by the SBI on transaction date plus one day (T+1). Thus the transporter has to wait for atleast one more day after deposit of money to get electronic confirmation of the payment which is pre requisite to check fraudulent practices. In case of internet banking, the transporter will be benefited by the fact that the confirmation of payment would be done on real time basis and the transporter could get back to the RTA for grant/ renewal of permit as the case may be. Audit noticed that RTA, Bathinda, Ferozepur, Jalandhar and Patiala issued 553, 3136, 3612 and 8950 permits respectively during 15 September 2010 to 31 March 2011.

3.9.13 Other implementation issues

3.9.13.1 Non/late issue of registration certificates of vehicles

Rule 48 of the CMVR provides that the registration certificate in respect of a motor vehicle be issued within a period of thirty days from the receipt of such application.

An analysis of the data for the period under review relating to the office of the five DTOs, revealed that in 1795⁷³ cases applications for registration of vehicles were received but registration certificates were not issued and in 3526⁷⁴ cases registration certificates of vehicles were issued with a delay ranging between four and 1619 days in contravention to the above stated provision depriving the citizen their timely service.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

⁷² Jalandhar: 4, Kapurthala: 2 and Patiala: 21.

⁷³ Jalandhar 19, Kapurthala 264, Mohali 807, Patiala 595 and Ropar 110.

⁷⁴ Jalandhar 227, Kapurthala 983, Mohali 987, Patiala 796 and Ropar 533.

3.9.13.2 Non-allotment and lack of continuity of registration numbers

The Registering Authority while assigning registration mark shall assign the registration number which falls in serial order after the last registration mark assigned. Registration numbers should be awarded in a sequence to monitor the year of the registration (model) of the vehicle.

A test check of the VAHAN database revealed that registration in 100031⁷⁵ registration numbers remained unallotted in 27⁷⁶ series clearly indicating discontinuity in the series.

Under the above circumstances the gaps in the chronological order of registration numbers give a misleading position regarding the number of vehicles registered at a particular time besides rendering the

missing registration numbers vulnerable to misuse.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).

3.9.13.3 Misappropriation of Government receipts

The system generates a user-wise report of cash received from applicants at the counter for accounting of cash at the closing hours of each working day. Additionally, the system can also generate reports for the user-wise/challan-wise, draft-wise and payments made in bank/other offices.

A test check of the daily cash receipts generated through VAHAN in respect of two⁷⁷ DTOs revealed that five⁷⁸ users did not account for the daily cash receipt of ₹ 0.21⁷⁹ lakh pertaining to 88⁸⁰ receipts generated between January 2008 and March 2011.

When we pointed out (October 2011), the DTO, Ropar deposited (October 2011) the amount of ₹ 0.11 lakh into the bank. However, DTO, Mohali did not reply to the audit observation.

Audit observed that due to bug in the software in 14096⁸¹ receipts, receipt numbers were not in accordance with the receipt master.

3.9.13.4 Irregular selection of M/s Manav Advertisers

The Government of Punjab introduced (March 2000) computerized laminated licenses in all the districts of Punjab with the instructions to allot the work at competitive rates on the recommendation of the district level committee comprising of Deputy Commissioner, District Transport Officer and DCF& A (Internal Audit)

A test check of records of the DTO, Jalandhar relating to lamination of licences revealed that before expiry of the contract period (23 January 2004), fresh NIT was invited (December 2003). Only two bidders namely M/s Tom Lamination, and M/s Manav Advertisers quoted their rates for the work. A

⁷⁵ Kapurthala 6147, Mohali 7, Patiala 93000 and Ropar 877.

⁷⁶ Kapurthala 6, Mohali 1, Patiala 15 and Ropar 5.

⁷⁷ Mohali and Ropar.

⁷⁸ Mohali:3 (malkit, malkitsingh and dtoadmin) and Ropar:2 (tarlochan and Admin).

⁷⁹ Mohali ₹ 0.10 lakh and Ropar ₹ 0.11 lakh.

⁸⁰ Mohali-50 and Ropar-38.

⁸¹ Jalandhar 59, Kapurthala 12403, Mohali 1624, Patiala 6 and Ropar 4.

Sub- Committee comprising of Assistant Commissioner (Grievances), District Informatics Officer, Jalandhar and DCF&A (Internal Audit) was constituted (07 January 2004) by Deputy Commissioner for examination and comments on technical bids. The sub-committee found that M/s Manav Advertisers was more technically competent in comparison to the M/s Tom Lamination, accordingly the work was allotted (08 January 2004) to the M/s Manav Advertisers by the Dy. Commissioner being the lowest at the previous rate of ₹ 5.90 per licenses.

Audit scrutiny revealed that the two bidders, i.e; M/s Tom Lamination, and M/s Manav Advertisers were in fact one party as the address and phone numbers of the two were identical as detected from the previous and present correspondence with Deputy Commissioner Jalandhar relating to tenders for lamination of licenses. However, the committee failed to verify the fake identify of the bidder as a result of which the Department was misled.

The reasons for irregular allotment of work to M/s Manav Advertisers involving payment ₹ 17.90 lakh in contravention to the instructions were called for (July 2011) however, no reply was received.

Audit observed that due to lack of centralized process for selection of contractor, there were disparities in the prices of laminated driving licenses in the State and the price variation ranged between ₹ 0.99 to ₹ 12.00 in five⁸² districts during November 2007.

3.9.14 Conclusion

VAHAN and SARATHI were implemented to build a comprehensive database for preparation of National Database but the computerisation of the project in Punjab was not achieved fully, due to delay as well as lack of systematic approach in procurement. Due to lack of input controls in backlog entry form in VAHAN, inconsistent data resided in the database. Short recovery of registration fee, partial-utilisation/deployment of modules of VAHAN application, Registration of vehicles with identical chassis and engine number and registration of two or more vehicles with same insurance cover note diluted the objective of preparation of State Register and National Register. Generation of fake receipts led to manipulation of process of registration of vehicles for generating registration number as per choice of the applicant without charging of the prescribed fee for choice number. Duplicate challan numbers, non-mapping of rule for calculation of fine on late registration of vehicles raised serious concern about the integrity and reliability of the system. The MIS Reports for controlling and monitoring the functions for maximisation of revenue were not available in the system. The Permit module of VAHAN was not utilised. The SARATHI was deficient in input controls, irregular issue of license to persons below the age of eighteen years. Absence of IT Policy and documentation and lack of change management control as well as non-preparation of Business Continuity Planning have exposed the system to risk. Lack of Physical and logical access controls alongwith appropriate system of segregation of duties and non-provision of Audit Trail has diluted the responsibility and accountability of officials apart from monitoring of the system.

⁸² Bathinda, Faridkot, Fatehgarh Sahib, Nawanshahar and Sangrur.

Recommendations

The Government/Transport Department may consider implementing the following recommendations to rectify the deficiencies and improve the system:

- *taking immediate measures to fully implement VAHAN and SARATHI systems in the State.*
- *ensure that the validation controls are built into the system to avoid entry of unauthorised and inconsistent data.*
- *review the business rules to ensure that all business rules are incorporated into the system and updated regularly to avoid loss of revenue.*
- *undertake training of staff and formulate IT Security Policy, Back up Policy, change management procedure and password policy so that the responsibility/accountability of staff be fixed and audit trail maintained for transaction.*
- *the modification rights for revision of fee etc. should be with the TD so that the required modification can be done timely.*
- *there should be check in the system to block the re-entry of the same number.*
- *alteration of registration number of vehicles as well as owner's details of vehicles as well as those pertaining to Driving Licences may not be encouraged as a matter of routine by the DTOs.*
- *Department may review the SARATHI System with NIC to ensure that below age person's driving licences are not accepted by the System.*

3.10 Compliance audit observations on implementation of MV Act and Rules

During scrutiny of records in the offices of registering authorities in the Motor Vehicles Department relating to revenue received from taxes on vehicles, we noticed several cases of non-observance of the provisions of the Acts/Rules resulting in misappropriation/embezzlement of Government money and non/short levy of tax, penalty and interest as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. We point out such omissions in audit repeatedly, but not only the irregularities persist, they also remain undetected till we conduct audit. The Government needs to improve the internal control system to avoid occurrence of such cases in future.

3.11 Non-observance of the provisions of Acts/Rules

The Punjab Motor Vehicles Taxation Act, 1924 (PMVT Act) provides for:-

- (i) payment of motor vehicles tax by the owner of vehicles at the prescribed rates and*
- (ii) levy of interest and penalty by the Department.*

Non-adherence to some of the provisions of the Acts/Rules by the registering authorities at the time of registration of vehicles are mentioned in the paragraphs 3.11.1 to 3.11.5

3.11.1 Embezzlement of Government receipts

A number of instances of misappropriation of Government money of ₹ 15.55 lakh are given below:-

DTO, Mansa

Rule 2.4 of the Punjab Financial Rules Vol.-I, provide that every monetary transaction should be entered in the cash book as and when it occurs and Government receipts collected during the day should be deposited in the Government treasury on the same day or next working day. Rules 2.2 (V) Vol.-I further provide that head of the office is required to maintain the Daily Collection Register and reconcile the remittances made during a month in the treasury by 15 of the next month. Rule 2.2 (IV) of Punjab Financial Rule Vol.-I provides that the end of each month, the head of the office should verify the cash balance in the cash book and record a signed and dated certificate to that effect. Such certificate must be signed by the head of the office who should invariably date the signature.

(a) (i) We found (November 2010) from the records relating to issue of driving licenses and registration of new vehicles for the year 2009-10 that the Government receipts of ₹ 2.39 lakh pertaining to 1,741 driving licenses and registration of 14 new vehicles were embezzled by tampering the counter foils of receipts and using single receipts for issue of multiple driving licences etc. On receipts of the appropriate fee for issue/renewal of driving licence and for registration of new vehicles, the original receipts required to be issued to the applicants and for pasting in the concerned case files were issued with the appropriate amount of fee, but the counterfoils were tampered with lesser amount of fee and the same were accounted in the cash book. For example, the counterfoil of original receipt bearing the number 720857 dated 22.2.10 for ₹ 1,000 pasted in the case file of a new registration of vehicle was tampered by entering the amount of fee as ₹ 100 only and accounted for accordingly. Similarly in the case of other receipt bearing No. 720445 for

1000 (counterfoils) the receipt was accounted for ₹ 100 by tampering the receipt No. 720444 by overwriting on it as receipt No. 720445. There were large scale differences between the entries in the cash books and the copies of receipts kept in the office files. Had the DDO cross verified the remittances as per case file with cash book and treasury records the irregularities could have been detected.

(ii) We found (November 2010) that fee of ₹ 0.80 lakh for issue of driving licences, registration of new vehicles and transfer fee was collected from the applicants by issuing cash receipts during 2009-10, but the fee was not deposited in the treasury. These cash receipts were neither recorded in the driving licence register nor were entered in the respective cash books. These

amounts were not deposited in the treasury and led to embezzlement of Government receipt of ₹ 0.80 lakh.

(iii) We also found (November 2010) that fee of ₹ 0.20 lakh for registration of new vehicles was collected from the applicants during January and March 2010 and accounted for in the Daily Collection Register (DCR)/cash book on the respective dates, but neither the original copies of challans in support of deposit of such receipts were available in the office nor these receipts were traceable in the treasury records. Thus, there was suspected embezzlement of Government receipt of ₹ 0.20 lakh.

When we pointed out (November 2010), the DTO stated that compliance would be made after verifying the records. Final reply is awaited (December 2011).

STC, Punjab, Chandigarh

(b) We found (December 2010) from the records relating to cash book, treasury challans and treasury records that Government receipts of ₹ 6.02 lakh collected as passing fee, compounding fee, registration fee and other miscellaneous receipts during 2009-10 were embezzled by submitting 44 fake and forged treasury challans. These fake challans were prepared fraudently, got stamped and signed for the treasury bank without the cash being deposited in the bank. This fact was confirmed by the Chief Manager of the bank. This was not detected by the Department due to non-reconciliation of the remittances with the treasury. Thus, there was embezzlement of Government receipt of ₹ 6.02 lakh.

When we pointed out (December 2010), the Department stated that the embezzled amount had been deposited in the treasury in December 2010.

SDO (Civil) Nihal Singhwala

(c) We found (April 2010) from the records relating to registration of new vehicle, treasury challans and records of treasury that tampered/forged treasury challans towards Government receipt of ₹ 1.84 lakh relating to registration of new vehicles for the period from 1.4.07 to 31.3.2010 were accepted by the office of SDO during 2007-08 to 2009-10. Registrations of vehicles were made without verifying correctness of the challans and without undertaking reconciliation of the remittances with the treasury. This resulted in embezzlement of ₹ 1.74 lakh as during our verification of the remittances, it was found that registration fee of ₹ 0.10 lakh only was deposited in the treasury against the fee ₹ 1.84 lakh. We also noticed that similar embezzlement of ₹ 1.08 lakh for the period May 2008 to May 2009 was detected by the Department itself and the loss was made good between June 2009 and August 2009, but no corrective measures were undertaken.

When we pointed out in audit, the Sub-Divisional Officer stated that recovery would be made after verification of the records. Final reply in this case is awaited (December 2011).

RTA, Jalandhar

(d) We found (June 2010) from the records relating to compounding fee that out of Government receipt of ₹ 1.74 lakh collected on account of

compounding fee during May-June 2009, receipt of ₹ 1 lakh was deposited after a delay of 9 months and the balance receipt of ₹ 0.74 lakh was neither shown as cash in hand in the cash book nor the same was deposited in the treasury till the date of audit (June 2010). Non-observance of the codal provisions relating to remittances in the treasury led to temporary misappropriation of ₹ one lakh and embezzlement of ₹ 0.74 lakh.

When we pointed out (June 2010), the Secretary, Regional Transport Authority, Jalandhar admitted the audit objection and stated that an amount of ₹ 0.74 lakh had been deposited in the treasury on 26 June 2010.

DTO, Jalandhar and Gurdaspur

(e) We found (August and October 2010) that tampered/forged treasury challans for Government receipt of ₹ 4.17 lakh relating to fee for registration of new vehicles and motor vehicle tax for the period from 1.6.2009 to 31.3.2010 were accepted by the DTOs during 2009-10. The registrations of vehicles were made and MVT was accepted without verifying correctness of the challans and without reconciling with the treasury records as DCRs were not maintained in both the cases of the DTO. This had resulted in loss to Government/embezzlement of ₹ 3.18 lakh, as verification of remittances by us disclosed that registration fee of only ₹ 0.95 lakh and MVT of ₹ 0.04 lakh had been deposited in the treasury against the depositable fee and MVT of ₹ 4.17 lakh.

When we pointed out (August 2010 and October 2010), the DTO, Jalandhar stated that the figures contained in the challans were verified by the cashier as per bank statement, but these figures were tampered at the time of registration of vehicles by the concerned official. The DTO, Gurdaspur stated that an amount of ₹ 0.69 lakh was deposited by the transporter. As regard the balance amount the DTO did not furnish any reply.

We reported the matter to the Department and Government to which it was replied (March 2011) in the case of DTO Jalandhar by the Department that recovery of ₹ 2.12 lakh had been made and deposited in the treasury in August 2010. The Department also stated that the establishment branch had been intimated to get the case registered against the guilty official and action for disciplinary proceeding had been initiated.

DTO, Ferozepur

(f) We noticed (October 2010) that 131 driving licenses and 178 learner's licences were issued to various persons by charging the requisite fees. But, neither the copy of cash receipt was pasted on the front page of application form nor the receipt number vide which license fees was collected was recorded in the Driving License Register/Learner's License Register as was noted in all other cases. This led to misappropriation of government money of ₹ 0.36 lakh.

Further, we noticed (October 2010) that in 119 cases, ownership of vehicles was transferred without charging the prescribed fees. Scrutiny of records revealed that in all other cases, copy of cash receipt vide which transfer fee was collected was pasted on the front page of application. In 113 cases, neither the copy of the cash receipt was pasted on the application form nor the

receipt number was recorded in the transfer of vehicle register, leading to misappropriation of government dues of ₹ 0.12 lakh.

When we pointed out (October 2010), the Department deposited ₹ 0.48 lakh into the Government treasury (November 2010).

Thus, in the above mentioned cases, embezzlement was facilitated by non maintenance of the daily collection register and non reconciliation of remittances in the treasury. Misappropriation in large number of cases reflects the absence of supervisory control.

We recommend the Department to take disciplinary action against the persons concerned, in respect of each of the above mentioned cases.

We reported the above mentioned cases of misappropriation to the notice of Government (January and February 2011); their reply is awaited (December 2011).

3.11.2 Delay in remittances of Government receipts

RTA, Jalandhar

The Punjab Financial Rules provide that

- every monetary transaction should be entered in the cash book as and when it occurs and the Government receipts collected during the day should be deposited in the Government treasury on the same day or the next working day.
- as per provisions contained in the Rule 2.4 of the PFR Vol.-I, the head of the office is required to sign the cash book daily and is also required to see that all the departmental receipts collected during the day are credited into the treasury on the same day or on the next working day.

We found (June 2010) that Government receipts of ₹ 20.17 lakh collected in 82 cases during the year 2009-10 were remitted in the treasury after delays ranging from 6 to 274 days in contravention of the codal provisions. In this case, this check was not exercised by the head of the office. Had the cash book been signed by the head of the office in accordance with requirement of Rules, corrective measures to curtail the delay in deposit of government money could have been taken in time by the Department. Such abnormal delays have the risk of temporary misappropriation of the Government money.

When we pointed out, the RTA stated (March 2011) that interest of ₹ 0.27 lakh on account of late deposits had been recovered from one official (December 2010) and the balance interest of ₹ 0.27 lakh was being recovered. It was also stated that the officials were to be charge sheeted for the irregularities. However, in this case responsibility of the head of the office remained un-addressed.

We reported the matter to the Government (April 2011); its reply is awaited (December 2011).

3.11.3 Non/short realisation of motor vehicle tax

Seven⁸³ DTOs

Under the PMVT Act, there shall be levied and paid to the Government a MVT on stage carriages at the rate per day/per kilometer as may be specified by the Government from time to time on the entire distance permitted to be covered. Failure to pay tax within the prescribed period attracts penalty not exceeding ₹ 5,000 but not less than ₹ 1,000 for each default and interest at the rate of one and half *per cent* per month or a part of the month was also leviable.

(a) We found (between November 2010 and February 2011) from the records relating to MVT Register and list of permitted kilometer that in respect of 11 transport companies, motor vehicle tax (MVT) of only ₹ 32.05 lakh was collected against the correct amount of ₹ 70.43 lakh worked out on the basis of permitted kilometers to be operated by the transport companies during the period between April 2009 and March 2010. The Department had neither demanded the differential amount of tax nor took any penal action as required under the PMVT Act. Thus, there was non/short realisation of MVT of ₹ 42.36 lakh including non-levy of

penalty of ₹ 0.90 lakh and interest of ₹ 3.08 lakh.

When we pointed out (between November 2010 and February 2011), the DTO, Muktsar stated that the case regarding exemption of MVT is pending with the RTA, Ferozepur. However, it was also stated that records would be verified and action would be taken accordingly. The remaining District Transport Officers stated that recovery would be made after verification of the records.

We reported the matter to the Government (between January 2011 and March 2011); their replies are awaited (December 2011).

STC, Punjab, Chandigarh

Under the PMVT Act, as amended in November 2007, there shall be levied and paid to the Government, MVT at the specified rates on tourist buses registered in the State of Punjab. MVT is payable in advance annually or quarterly by 15 April or 15 of each quarter. Penalty is leviable for default in payment of MVT on the due dates.

(b) We found (December 2010) from the records relating to MVT Register of tourist buses that MVT of ₹ 5.85 lakh for the year 2009-10 in respect of three all India tourist air-conditioned buses registered in the State was neither demanded by the (STC), Punjab nor paid by the owners. This omission resulted in non-realisation of MVT of

₹ 5.85 lakh. Besides, minimum penalty of ₹ 0.03 lakh was also leviable.

⁸³ Amritsar, Bathinda, Hoshiarpur, Ludhiana, Moga, Muktsar and Sangrur

When we pointed out (December 2010), the STC intimated that efforts would be made to recover the tax. The outcome in this case is awaited (December 2011).

We reported the matter to the Department and the Government (February 2011); their replies are awaited (December 2011).

DTO, Ludhiana

Under the PMVT Act, 1924 as amended in November 2007, there shall be levied and paid to the Government, MVT at the rate of ₹ 20,000 and ₹ 35,000 per annum per vehicle on school and college vehicles respectively used by the educational institutions and running upto 50 kilometres from the place of registration. Failure to pay tax within the prescribed period attracts penalty not exceeding ₹ 5,000 but not less than ₹ 1,000. Further, under section 14-B of the Act, where any tax due in respect of any vehicle has not been paid, the DTO may seize and detain such vehicle.

(c) We found (March 2010 and January 2011) from the records relating to MVT Register of educational institution that the educational institutions (four colleges and 17 schools) omitted to pay the MVT of ₹ 10.90 lakh payable for 14 college buses and 30 school buses owned and operated by them during the year 2008-09 and 2009-10. The DTO neither demanded the MVT nor took any action to impound these buses as required under section 14-B of MVT Act 1924 This resulted in non-payment of MVT of ₹ 10.90 lakh. Besides, minimum penalty of ₹ 0.44 lakh was also leviable.

When we pointed out (March 2010 and January 2011) in audit, the DTO stated that matter would be looked into. Final reply is awaited (December 2011).

RTA, Ferozepur

Under the PMVT Act, as amended in November 2007, MVT is levied on stage carriages buses registered in other States and plying as stage carriages in the State of Punjab under the reciprocal agreement.

(d) We noticed (July 2010) from the records relating to MVT Register of inter state buses and reciprocal agreement that Sri Ganga Nagar depot of Rajasthan State Road Transport Corporation (Corporation) was permitted under the reciprocal agreement to operate bus services for a distance of 340 kilometres per day in the Punjab territory, but the

Corporation did not pay MVT of ₹ 4.59 lakh for the period from April 2009 to March 2010. The Department neither demanded the tax nor took any penal action as required under the MVT Act. Thus there was non-payment of MVT of ₹ 4.59 lakh. Besides, penalty and interest of ₹ 0.57 lakh was also leviable.

When we pointed out (July 2010) the RTA, Ferozepur stated that action would be taken. The final outcome of the action taken is awaited (December 2011).

We reported the matter to the Department and the Government (January and March 2011); their replies are awaited (December 2011).

3.11.4 Non-levy of interest on belated payment of MVT

RTA, Patiala

Under the PMVT Act as amended from June 1993, if the owner of a vehicle fails to pay motor vehicle tax within the prescribed period, he is liable to pay simple interest at the rate of one and half per cent per month or a part of month from the date following the due date, till the default continues. Where tax due in respect of any vehicle has not been paid, the Department may issue notices, impound, seize and detain the vehicle until the tax due is paid.

(a) We found (August 2010) from the records relating to MVT Register of inter state buses that Uttaranchal Transport Corporation, Tanakpur failed to pay MVT of ₹ 4.36 lakh for the period from November 2007 to April 2008. The arrear of MVT of ₹ 4.36 lakh was recovered belatedly by the Department in installments between October 2008 and June 2009, but the interest on MVT for delayed payment was neither paid by the Corporation nor demanded by the Department. This resulted in non-levy of interest of ₹ 0.79 lakh.

(b) Similarly, Narnaul Depot of the Haryana Roadways deposited the arrears of MVT of ₹ 9.31 lakh for the period from April 2008 to August 2009 in the month of August 2009, but omitted to pay interest for the delayed payment of MVT. The interest for the delayed payment of MVT was not demanded by the Department. This resulted in non-levy of interest of ₹ 1.29 lakh.

When we pointed out (August 2010), the RTA, Patiala stated that the matter would be looked into and detailed reply would be sent after verification of the records.

We reported the matter to the Department and the Government in March 2011; their replies are awaited (December 2011).

3.11.5 Irregular recovery of Motor Vehicle Tax on the element of Value Added Tax, in violation of Government Notification

Government of Punjab notified (December 2007) that the tax on motor car and motor cycle shall be leviable in lump sum, which shall be calculated on the actual price (excluding taxes, if any) of such vehicle at such rate, as may be determined by Government from time to time. The STC while responding to a query under Right to Information (RTI) Act also clarified that Value Added Tax (VAT) shown in the invoice/bill of the vehicle shall not be taken into consideration for levy of motor vehicle tax.

An analysis of VAHAN database as maintained in the offices of the five DTOs from 2007-11 revealed that in 211895⁸⁴ cases motor vehicles were registered during the period. The relevant records of registration were

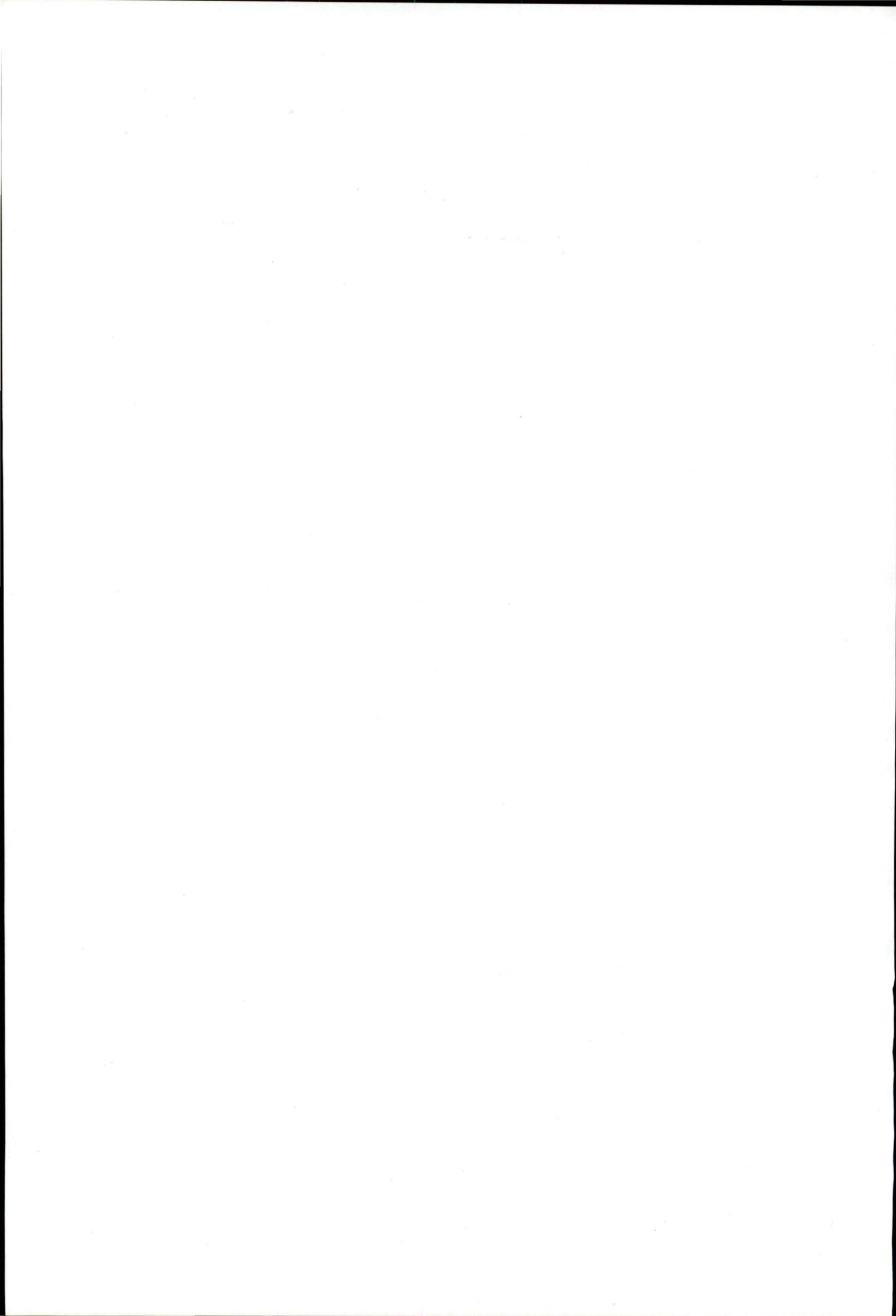
called for from the Department and the records in respect of 23 vehicles were

⁸⁴

Jalandhar 74249, Kapurthala 34176, Mohali 45724, Patiala 36057 and Ropar: 21689.

provided to us. Out of 23 vehicles test checked by us, we found that MVT was charged on the invoice value inclusive of VAT in respect of 20 vehicles. This has resulted in overcharging of MVT of ₹ 39,741 from the owners of the vehicles in contravention to the above stated notification/ provision. The possibility of overcharging of MVT in remaining 2,11,875 cases could not be ruled out. The Department may review these cases and also issue suitable instructions to its officers to abide by the Government Notification.

We reported the matter to the Department/Government (November 2011); their replies are awaited (December 2011).



CHAPTER -IV State Excise

4.1 Tax administration

The Financial Commissioner Taxation and Principal Secretary to the Government of Punjab is overall incharge of the Excise and Taxation Department. Subject to overall control and superintendence of the Excise and Taxation Commissioner (ETC), Punjab Patiala, the administration of the Punjab Excise Act 1914 relating to the import, export transport, manufacture sale and possession of intoxicating liquor and of intoxicating drugs is carried out by Additional Excise and Taxation Commissioner at Patiala and six Deputy Excise and Taxation Commissioners (DETCs) at Amritsar, Faridkot, Ferozepur, Jalandhar, Ludhiana and Patiala who arrange draw of vends in their respective areas and exercise the powers of collectors for recovery of excise revenue. Twenty four Assistant Excise and Taxation Commissioner (AETCs) monitor the work at the district level who are assisted by Excise and Taxation Officers (ETOs) and other allied staff.

4.2 Analysis of budget

Budget Estimates for the year 2010-11 were assigned at ₹ 2,461.73 crore by the Department, but the budget fixed by the Finance Department was ₹ 2,501.98 crore. The Finance Department again revised it to ₹ 2,640 crore. Against which, the actual receipts were ₹ 2,373.07 crore.

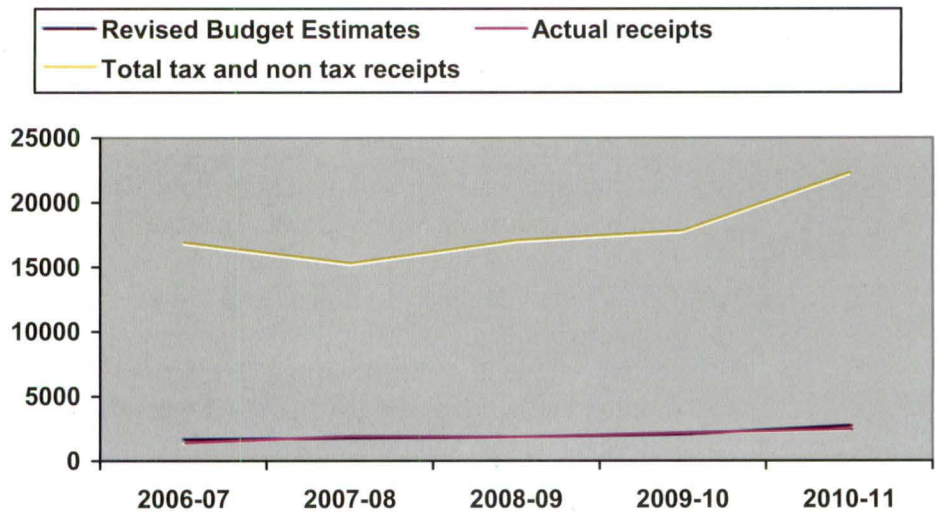
4.3 Trend of receipts

Actual receipts of State Excise during the period 2006-07 to 2010-11 along with the total tax/non-tax receipts during the same period is exhibited in the following table.

(₹ in crore)

Year	Revised Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax and non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax and non-tax receipts
2006-07	1,628.44	1,367.79	(-) 260.65	(-) 16.01	16,761.74	8.16
2007-08	1,726.00	1,861.52	(+) 135.52	(+) 7.85	15,153.14	12.28
2008-09	1,830.01	1,809.95	(-) 20.06	(-) 1.10	16,934.10	10.69
2009-10	2,000.83	2,100.92	(+) 100.09	(+) 5.00	17,692.18	11.87
2010-11	2,520.20	2,373.07	(-) 147.13	(-) 5.83	22,158.35	10.71

The trend of actual receipts vis-a-vis budget estimates during 2006-07 to 2010-11 is depicted in the following graph.



4.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 were ₹ 14.87 crore, of which ₹ 11.50 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	Closing balance of arrears
2006-07	12.97	11.65
2007-08	11.65	11.69
2008-09	11.69	11.60
2009-10	11.60	11.50
2010-11	11.50	14.87

The analysis of the arrears of revenue for 2010-11 was as under:

Demands of ₹ 1.68 crore were covered by recovery certificates; recovery of ₹ 1.29 crore was stayed by the High Court/other judicial and departmental authorities; demands amounting to ₹ 4.47 crore were likely to be written off; ₹ 1.32 crore were being recovered in installments; recovery of ₹ 7.19 lakh was held up due to rectification and the balance of ₹ 6.04 crore was at different stages of action.

4.5 Cost of collection

The gross collection of the major revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2005-06 to 2010-11 alongwith the relevant all India average percentage of expenditure on collection are mentioned below:

(₹ in crore)

Year	Collection	Expenditure on Collection	Percentage of expenditure to gross collection	All-India average percentage over the previous year
2005-06	1568.16	11.90	0.76	3.34
2006-07	1367.79	12.26	0.90	3.40
2007-08	1861.52	13.27	0.71	3.30
2008-09	1809.95	14.57	0.80	3.27
2009-10	2100.92	17.23	0.82	2.77
2010-11	2373.07	20.55	0.86	3.64

The cost of collection in 2010-11 increased by 0.04 *per cent* as compared to the previous year 2009-10. The reasons of variations were called for from the Department and the reply is awaited (December 2011).

4.6 Impact of audit reports

4.6.1 Revenue impact

During the last five years (including the current year's Report), audit through its Audit Reports had pointed out non/short levy of excise duty, with revenue implication of ₹ 85.43 crore in 11 paragraphs. Of these, the Department/Government had neither accepted nor recovered. The details are shown in the following table:

Year of Audit Report	Paragraphs included	
	No.	Amount
2005-06	2	6.29
2006-07	3	65.57
2007-08	2	0.37
2008-09	2	10.70
2009-10	2	2.5
Total	11	85.43

4.7 Working of internal audit wing

Internal audit is intended to examine and evaluate the level of compliance with the Rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any Department. However, no internal audit wing exists in Department.

4.8 Results of audit

Test check of the records of 36 units relating to State Excise receipts revealed underassessment of tax and other irregularities involving ₹ 8.49 crore in 93 cases which fall under the following categories:

(₹ in crore)

Sr. No.	Categories	No. of cases	Amount
1.	Non/short deposit of licence fee	26	3.41
2.	Non-recovery of interest on delayed payment on licence fee	23	0.04
3.	Non-realisation of cost of establishment charges and allowance	34	0.85
4.	Revenue loss due to sub normal yield of spirit from molasses	05	1.12
5.	Non-payment of Excise duty/assessed fee	01	3.05
6.	Other irregularities	04	0.02
	Total	93	8.49

During the year 2010-11, the Department recovered ₹ 1.38 crore in six cases pertaining to the audit finding of the previous years.

A stand alone Report titled 'Working of State Excise Department' is attempted separately.

EXECUTIVE SUMMARY- CHAPTER - V

Increase in the collection of stamp duty and registration fees	In the year 2010-11 the collection of Stamp Duty and Registration fees increased by 49.49 <i>per cent</i> over the previous year but there was a shortfall in collection of ₹ 181.54 crore in comparison with the revised budget estimates for 2010-11.
Recovery by Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10 we had pointed out non/short levy etc, involving revenue implication of ₹ 168.67 crore in 3,164 cases of these the department, Government had accepted audit observations in 691 cases involving ₹ 12.45 crore but recovered only ₹ 3.68 crore in 735 cases pertaining to the audit findings of previous years. The recovery position as compared to acceptance of objections was ranging from 0.04 <i>per cent</i> to 539.39 <i>per cent</i> .
Internal audit not conducted	Internal audit is intended to examine and evaluate the level of compliance with rules and procedure. Effective internal audit system both in the manual as well as computerised environment are pre-requisite for the efficient working of any Department. However, no internal audit wing existed in the Department. .
Result of audit conducted by us during 2010-11	In 2010-11 we test checked the records of 108 units relating to stamp duty and registration fee and noticed several cases of non/short levy of stamp duty and registration fee and other irregularities and misappropriation of Government money involving ₹ 43.82 crore in 583 cases. The Department accepted audit observations involving ₹ 21.27 crore in 23 cases and recovered ₹ 2.81 crore in 165 cases pertaining to audit finding of the earlier years.
What we have highlighted in this Chapter.	<p>In this chapter we present illustrative cases of ₹ 3.92 crore inclusive of misappropriation of Government of receipt of ₹ 19.74 lakh selected from observations noticed during our test check of records relating to stamp duty and registration fee in the offices of Sub-Registrar/Joint Sub Registrar where we found that provision of Act/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Report for the past several years, but the Department have not taken corrective action despite switching over to an IT enabled systems in the whole Department. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.</p>

Our conclusion and Recommendations	<p>The Department needs to improve the internal control system including strengthening the internal audit so that weakness in the system are addressed and omission of the nature detected by us are avoided in future.</p> <p>It also needs to initiate immediate action to recover the non-realisation, under assessment of tax etc. pointed out by us, more so in those cases where it has accepted our contention.</p>
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CHAPTER-V

Stamp duty and Registration fees

5.1 Tax administration

The State Government exercises control over the Registration of instruments through the Inspector General of Registration, who is assisted by the Deputy Commissioner (Collector), Tehsildars and Naib-Tehsildars acting as Registrars, Sub-Registrars (SRs) and Joint Sub-Registrars (JSRs) respectively. No registration work is however, done in the office of the Registrars. The Registrar exercises Superintendence and Control over the SRs and JSRs of the district. For the purpose of levy and collection of Stamp Duty and registration Fee, the State has been divided into four divisions and 20 districts having 20 Registrars, 78 SRs and 76 JSRs.

5.2 Analysis of budget

Budget Estimates for the year 2010-11 were assigned at ₹ 2,200 crore by the Department, but the budget fixed by the Finance Department was ₹ 2,395 crore. The Finance Department again revised it to ₹ 2,500 crore. Against which, the actual receipts were ₹ 2,318.46 crore.

5.3 Trend of receipts

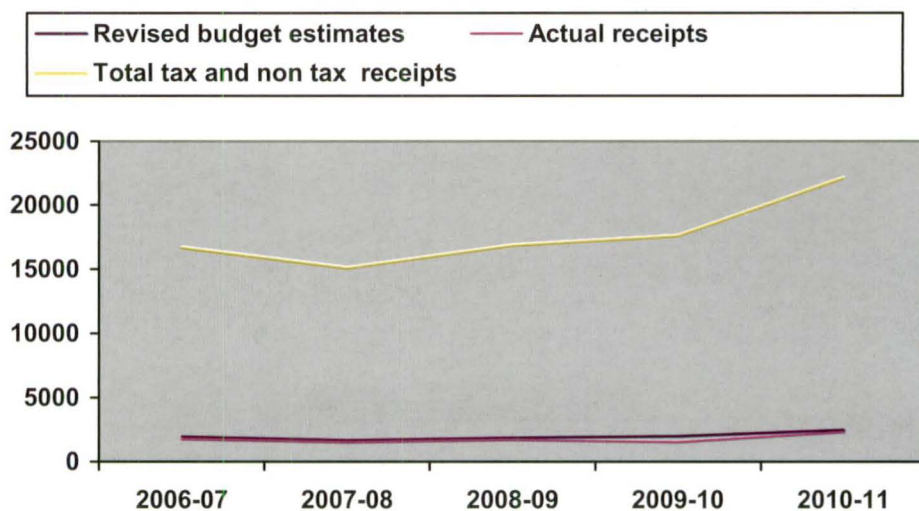
Actual receipts from Stamp duty and Registration fees during the period 2006-07 to 2010-11 along with the total tax/non-tax receipts collected by the State during the same period is exhibited in the following table.

(₹ in crore)

Year	Revised budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax and non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax and non-tax receipts
2006-07	2,000.00	1,803.93	(-) 196.07	(-) 9.80	16,761.74	10.76
2007-08	1,700.00	1,567.84	(-) 132.16	(-) 7.77	15,153.14	10.35
2008-09	1,900.00	1,730.29	(-) 169.71	(-) 8.93	16,934.10	10.22
2009-10	2,015.00	1,550.94	(-) 464.06	(-) 23.03	17,692.18	8.77
2010-11	2,500.00	2,318.46	(-) 181.54	(-) 7.26	22,158.35	10.46

Though the actual receipts during 2010-11 increased as compared to that of for the preceding year, yet there was shortfall in collection by ₹ 181.54 crore against the envisaged (Revised) budget estimates.

The trend of actual receipts vis-a-vis budget estimates during 2006-07 to 2010-11 is depicted in the following graph.



5.4 Analysis of arrears of revenue

No arrears of revenue are pending in the Department.

5.5 Cost of collection

The gross collection of stamp duty and registration fee, expenditure incurred on their collection and the percentage of such expenditure to the gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection are mentioned below:

(₹ in crore)

Head of Revenue	Year	Gross Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage over the previous year
Stamp duty and registration fees	2006-07	1803.93	30.21	1.67	2.87
	2007-08	1567.84	18.22	1.16	2.33
	2008-09	1730.29	23.69	1.37	2.09
	2009-10	1550.94	12.42	0.80	2.77
	2010-11	2318.46	25.47	1.10	2.47

The cost of collection in 2010-11 was increased by 0.30 per cent as compared to the previous year 2009-10. The reasons of variations were called for from the Department and the reply is awaited (December 2011).

5.6 Impact of Audit Reports

5.6.1 Revenue impact

During the last five years, audit through its reports had pointed out non/short levy etc., involving revenue implication of ₹ 168.67 crore in 3,164 cases. Of these, the Department/Government had accepted audit observations in 691 cases involving ₹ 12.45 crore and had recovered ₹ 3.68 crore in 735 cases. The details are shown in the following table:

(₹ in crore)

Year	Number of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2005-06	127	909	7.90	114	3.95	51	0.17
2006-07	99	458	11.05	325	7.41	203	0.92
2007-08	132	919	49.32	205	0.45	121	0.44
2008-09	116	316	42.32	24	0.31	88	0.37
2009-10	141	562	58.08	23	0.33	272	1.78
Total	615	3,164	168.67	691	12.45	735	3.68

The Government may consider for issuing of instructions for the recovery of the revenue at least in the accepted cases on priority.

5.7 Working of internal audit wing

Internal audit is intended to examine and evaluate the level of compliance with the Rules and procedures so as to provide a reasonable assurance on the adequacy of the internal control. Effective internal audit system both in the manual as well as computerised environments are a pre-requisite for the efficient functioning of any Department. However, no internal audit wing exists in Department.

5.8 Results of audit

Test check of the records of 108 units relating to stamp duty and registration fee during 2010-11 revealed irregularities involving ₹ 43.82 crore in 583 cases, which fall under the following categories:

(₹ in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Non/short levy of stamp duty and registration fee	334	18.90
2.	Short levy of stamp duty and registration fee on lease deeds	4	17.82
3.	Misclassification of instruments	21	1.23
4.	Other irregularities	224	5.87
Total		583	43.82

During the year 2010-11, the Department accepted the audit observations involving ₹ 21.27 crore in 23 cases and recovered ₹ 2.81 crore in 165 cases pertaining to the audit findings of the earlier years.

A few illustrative cases involving ₹ 3.92 crore are discussed in the following paragraphs.

5.9 Audit observations

We noticed several cases of non-observance of provisions of Acts/Rules; resulting in misappropriation of Government money, non/short levy and irregular remission of stamp duty and registration fee due to misclassification of documents, application of incorrect rates of stamp duty and inadmissible benefits as mentioned in the succeeding paragraphs. These cases are illustrative and are based on a test check carried out by us. Such omissions on the part of Sub-Registrars/Joint Sub Registrars (SRs/JSRs) are pointed out in audit repeatedly, but not only the irregularities persist, they also remain undetected till we conduct audit. There is need for the Government to improve the internal control system so that such omissions can be detected and corrective measures taken.

5.10 Non-observance of provision of Act/Rules

The Indian Stamp Act, 1899, The Indian Registration Act, 1908 and Rules frame thereunder provide for:-

- (i) levy of stamp duty and registration fee at the prescribed rates,
- (ii) exemption from stamp duty and registration fee and
- (iii) correct determination of stamp duty and registration fee.

The SRs/JSRs while registering the deeds did not observe some of the provisions of Acts/Rules in the cases mentioned in paragraphs 5.10.1 to 5.10.9. This resulted in non/short levy and non-realisation of stamp duty and registration fee of ₹ 3.92 crore.

5.10.1 Misappropriation of Government dues

SR, Amritsar-I

Punjab Government vide notification dated July 2009, revised the rate of registration fee to one per cent of the value of the deeds subject to a minimum of ₹ 50 and maximum of ₹ 30,000 with effect from 21 July 2009 in respect of all compulsorily registerable documents other than leases of immovable property.

a (i) We found (August 2010) that in 224 cases of registration of deeds executed during 2009-10, registration fee of only ₹ 7.46 lakh was collected against the due fee of ₹ 25.20 lakh. This was done by adopting the modus operandi of lowering the value of deeds for levy of registration fee though the stamp duty was levied on the full value of deeds. The registration fee was collected on lower value despite the

fact that as per calculation by computerised software, the full amount of registration fee was to be levied. This resulted in fraud/short collection of Government dues of ₹ 17.74 lakh.

ii) Similarly, by co-relating of counter foil of receipt book and cash book we found (August 2010) that in three cases during 2009-10, against the collection of Government dues of ₹ 0.09 lakh, only ₹ 102 was accounted for in the cash book. This was done by not taking the amount of two receipts of

₹ 7420 to the cash book and by taking ₹ 102 against the receipt for amount of ₹ 1400. The SR is responsible for correct deposit of Government money failed to detect the misappropriation. This had resulted in misappropriation of Government dues of ₹ 0.09 lakh.

The Rules further provide that all the Government receipts collected during the day, should without any further delay be paid into the Government treasury on the same day or on the next working day. The head of the office should verify the totals of the cash book or have this done by some other responsible subordinate official other than the writer of the cash book.

iii) We found (August 2010) that in 10 cases the totals in the fee register were taken less by ₹ 0.52 lakh between the period September 2009 to February 2010 by adopting the modus operandi of short totaling. Thus, non-checking of the total by some other responsible official resulted in misappropriation of Government money of ₹ 0.52 lakh. When we pointed (August 2010), the Sub Registrar accepted the audit objection and stated that out of ₹ 18.35 lakh (17.74+0.09+0.52), an amount of ₹ 11.55 lakh had been

deposited into the Government treasury (August 2010) and the balance amount of ₹ 6.80 lakh had been recovered from the concerned official and deposited into the treasury, but the treasury challans for ₹ 6.80 lakh were yet to be verified. It was also intimated by the SR that the official concerned has been suspended by the Deputy Commissioner. However, in this case responsibility of the head of the office remained un-addressed.

SR, Tarn Taran

(b) We found (September 2010) that in six cases against the actual receipts of ₹ 1.13 lakh, only ₹ 46.00 was taken into account in the fee register. This was detected by us by cross checking of the counter foils of the receipt books for 2009-10 with the entries in the cash book. This had resulted in misappropriation of Government dues of ₹ 1.13 lakh.

When we pointed out (September 2010), the SR stated that the entire misappropriated amount had been recovered and deposited into the treasury (September and October 2010). The SR further stated that misappropriation of ₹ 0.85 lakh was detected by the Department which was also recovered and deposited into the treasury (September 2010) and the official concerned has been suspended and a charge sheet was being issued to him. However, in this case responsibility of the head of the office remained un-addressed.

Joint SR, Attari

c (i) We found (November 2010) that in four cases against the actual receipt of ₹ 0.16 lakh, receipt of ₹ 16 only was accounted for in the cash book, which was detected by us by cross checking the counter foils of receipt books for 2009-10 with the entries in the cash book. This had resulted in misappropriation of Government due of ₹ 0.16 lakh.

(ii) Similarly we found (November 2010) that registration fee of ₹ 0.10 lakh was not accounted for in the fee register which was detected by us while cross checking of the fee realised as per deed registered during 2009-10 with the

entries in the fee register. This had resulted in misappropriation of Government dues of ₹ 0.10 lakh.

When we pointed (November 2010), the JSR, Attari stated that the misappropriated dues of the Government would be recovered after verification of the records. Final outcome of the matter is awaited (December 2011).

We reported the above mentioned cases of misappropriation to the Department (between August and November 2010) and the Government (between August 2010 and January 2011); their replies are awaited (December 2011).

5.10.2 Short levy of stamp duty

10 SRs¹ and Six² JSRs

Under the Punjab Stamp Rules, 1983 as amended in 2002, the Collector of a district in consultation with the committee of experts as defined thereunder, fixes the minimum market value of land/properties, locality wise and category wise in the district, for the purpose of levying stamp duty on the instruments of transfer of any property.

We found (between January 2010 and March 2011) that on 25 instruments registered during 2008-09 and 2009-10 for the sale of agricultural/ residential/commercial properties, the stamp duty was wrongly charged on the consideration value of ₹ 26.89 crore set forth in the instruments instead of ₹ 60.81 crore, the minimum market value of properties at the price fixed by the respective Collectors. This resulted in short levy of stamp duty of ₹ 2.57 crore.

When we pointed out in audit, the JSR Machhiwara stated that the deed would be sent to the Collector under section 47-A. The remaining SRs stated that recovery would be made after verification of the records.

We reported the matter to the Department and the Government (between January and March 2011); their replies are awaited (December 2011).

¹ Amritsar-I,II, Gidderbaha, Hoshiarpur, Jalandhar-I&II, Malaut, Nawan shahar, Sangrur and Shahkot

² Attari, Banga, Koom Kalan, Macchiwara, Noor Mahal and Talwandi Bhai

5.10.3 Non/short levy of stamp duty and additional stamp duty**Five SRs³**

As per the notification issued in April 2007, the Punjab Government remitted the stamp duty chargeable on the instrument of transfer of urban residential property falling within the limit of municipal committee or municipal corporation as the case may be, when the property is transferred by the owner in favour of his class-I heirs.

The remission was not available for transfer of commercial/ agriculture property under the said notification. Further, additional stamp duty is chargeable in respect of every instrument of immoveable properties falling within the municipal limit.

We found (between April 2010 and February 2011) that nine transfer deeds for transfer of urban “commercial/ agricultural properties” valuing ₹ 8.26 crore were executed by the owners in favour of their class-I heirs⁴. The exemptions as granted under the notification (April 2007) were not admissible in the case of ‘Commercial/ agricultural property’. Thus stamp duty and additional stamp duty was recoverable on these transfers. Non-levy of stamp duty in these cases worked out to ₹ 40.86 lakh. Besides additional stamp duty of ₹ 23.80 lakh was also not levied in these cases.

When we pointed out (between April 2010 and February 2011), SR Dasuya stated (April 2010) that the land is ‘*gairmumkin*’ (non-cultivable) and not industrial. The reply is not acceptable because as per *jamabandi* records attached with the deed, a factory was in operation on that land. The other SRs stated that action would be taken after verification of records.

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

5.10.4 Short levy of stamp duty due to misclassification of properties**SR Amritsar-II**

Under the Punjab Stamp (Dealing of Under-valued instruments) Rules, 1983 as amended in 2002, the Collector of a district in consultation with the Committee of Experts fixes the minimum market value of land/properties locality wise and category wise in the district for the purpose of levying stamp duty.

(a) We found (May 2010) that three deeds for transfer of properties were registered during the year 2009-10 as “residential” instead of “commercial” properties. The Collector’s rates as applicable to those properties were not applied for levy of stamp duty. This mistake in classification resulted in

³ Bholath, Dasuya, Jagraon, Ludhiana (East) and Mukerian

⁴ Class-I heirs include son, daughter, wife, mother, son of a pre-deceased son, daughter of a pre-deceased daughter, widow of a pre-deceased son, son of a pre-deceased son of a pre-deceased son, daughter of a pre-deceased son of a pre-deceased son, widow of a pre-deceased son of a pre-deceased son.

short levy of stamp duty of ₹ 2.66 lakh.

When we pointed out (May 2010), SR stated that matter would be looked into.

JSR, Noor Mahal

(b) We found (January 2011) that two deeds for transfer of land were registered during 2009-10. The stamp duty of ₹ 1.76 lakh was levied on the consideration of ₹ 35.25 lakh calculated at the rate ₹ 8.00 lakh per acre applicable for agricultural land instead of stamp duty of ₹ 8.81 lakh (leviable on the total consideration ₹ 176.25 lakh calculated at the rate of ₹ 0.25 lakh per marla) applicable for the residential purpose. This misclassification was identified by us by cross linking the "Khasras" mentioned in the deeds with the list of Khasras for residential area declared by the Collector. This mistake in classification resulted in short levy of stamp duty of ₹ 7.05 lakh.

When we pointed out (January 2011), the JSR stated that the cases would be sent to the Collector under section 47A. Final outcome of the cases are awaited (December 2011).

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

5.10.5 Irregular remission of stamp duty

Four SRs⁵

The Punjab Government by notification issued on 21 December 2001 remitted the stamp duty chargeable in the case of transactions of transfer of agricultural and residential property situated in rural areas. By another notification issued on 27 April 2007, the Government remitted the stamp duty chargeable on the transfer of residential property situated in urban areas, when the transactions are executed in favour of class I heirs as defined under section 8 of the Hindu Succession Act. This concession shall also be available when the transfer of the above mentioned category of properties are registered in favour of the son's of the brother (class II heirs) of the executor and the executor is unmarried or issueless.

We found (between June and November 2010) from the records for the year 2009-10 maintained in the offices of SRs that four instruments for transfer of agriculture land in rural area in three cases and urban residential property in one case involving consideration of ₹ 2.10 crore were executed and registered (between July 2009 and February 2010) without charging stamp duty as if the transfer was executed in favour of class I heirs. However, we noticed that the land had been transferred to class II heirs (Nephews) in two cases when the class I heirs (wives) of the executors were alive. Similarly, in other two cases, the agriculture land and

⁵ Jalalabad, Kapurthala, Ludhiana (West) and Phillaur.

residential properties were transferred by the owner of property to their grand sons when the sons of these executors were alive. These omissions had resulted in inadmissible exemption from levy of stamp duty of ₹ 11 lakh inclusive of registration fee of ₹ 0.50 lakh.

When we pointed out (between June and November 2010), three SRs⁶ stated that action would be taken after verification of records. While the SR Ludhiana (West) stated that the matter would be looked into. Final action/replies in all four cases are awaited (December 2011).

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

5.10.6 Short levy of stamp duty due to application of incorrect rate of stamp duty

SR, Fatehgarh Sahib

Punjab Government vide ordinance issued in September 2007 revised the rate of stamp duty on conveyance deed covering transfers of immovable property to five *per cent* from six *per cent*.

We found (May 2010) that three conveyance deeds covering the transfer of agriculture land in rural areas were registered during 2009-10 by charging stamp duty of ₹ 1.48 lakh against the leviable duty of ₹ 7.06 lakh. The duty charged works out to 0.81 to 1.63 *per cent* of stamp duty on the consideration of the deeds against the applicable rate of five percent. The omission resulted in short levy of stamp duty of ₹ 5.58 lakh.

When we pointed (May 2010 and May 2011) and enquired as to whether the deficient stamp duty was deposited directly in the bank by the executors or the same had been recovered in the SR office, the SR stated that the deficient stamp was neither deposited directly in the bank nor it had been recovered by the registrar while registering the deeds.

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

⁶ Jalalabad, Kapurthala and Phillaur

5.10.7 Non-registration of the lease deeds

Director, Industries and Commerce, Punjab

Under section 17 (d) of the Registration Act, 1908 leasing of immoveable property for any term exceeding one year or reserving a yearly rent are compulsorily registrable. The Government of Punjab, Department of Revenue and Rehabilitation (Stamp and Registration Branch) vide Notification dated 15th October, 1999 specified registration fees, as one per cent of the value of the transaction mentioned in the document, subject to a minimum of ₹ 50 and maximum of ₹ 10000.

We collected information from the Directorate of Industries and Commerce, Punjab and observed (December 2010) that 285 contracts for leasing of mining of sand, gravel and building stones etc were entered into in 13 districts⁷ during the year 2008 for a consideration of ₹ 27 crore. We saw that the lease deeds for

the contract periods, April 2008 to March 2010 were not registered in the respective registering authorities. This omission resulted in loss of registration fee of ₹ 14.36 lakh.

We reported the matter to the Department and the Government (January 2011); their replies are awaited (December 2011).

⁷ Amritsar, Bathinda, Faridkot, Ferozepur, Gurdaspur, Hoshiarpur, Jalandhar, Kapurthala, Ludhiana, Moga, Mohali, Nawan shahar and Patiala

5.10.8 Short levy of stamp duty and registration fee due to inadmissible benefits

SR,Ludhiana (West)

Punjab Government's notification (March 2009) clarified that consideration amount fixed by the Government/semi Government at the time of allotment of immovable property shall be deemed to be the Collector rate and stamp duty shall be charged for registration of the document upon that consideration. The benefit was not available to organisations which were not Government/Semi Government organisations.

Under the Punjab Stamp (Dealing of Under-valued instruments) Rules, 1983 as amended in 2002, the Collector of a district in consultation with the Committee of Experts fixes the minimum market value of land/properties locality wise and category wise in the district for the purpose of levying stamp duty.

We found (July 2010) that two deeds with consideration of ₹ 0.76 lakh were executed by M/s Kabir Co-operative House Building Society Ltd. Ludhiana (a non-Government/ Semi Government Organisation) in favour of its members. Stamp duty of ₹ 0.06 lakh was levied on the consideration of ₹ 0.76 lakh set forth in these deeds treating the Society as semi Government organisation and without applying the Collector rates for valuation of the transaction. The leviable duty of ₹ 5.97 lakh was worked out in audit on the consideration of ₹ 76.88 lakh valued at Collector rate. The mission had resulted in short levy of stamp duty of ₹ 5.90 lakh.

When we pointed out (July 2010), the SR stated that matter would be looked into. Final action on the issue is awaited (December 2011).

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

5.10.9 Non-realisation of stamp duty

Sub-Registrar, Tarn Taran

The Indian Stamp Act provides that except otherwise expressly provided in this Act, all the duties with which any instruments are chargeable shall be paid and such payment shall be indicated on such instruments by means of stamp.

We found (September 2010) that while registering a conveyance deed during 2009-10, the SR had detected the deficiency of stamp duty of ₹ 4.46 lakh, but erred to register the deed without realising the deficit stamp duty. The omission resulted in non-realisation of stamp duty of ₹ 4.46 lakh.

When we pointed out (September 2010), the SR stated that the deficiency was already pointed out by his office and recovery would be made shortly. The reply of the SR is not acceptable because the instrument was required to be registered only after realising the whole due stamp duty, which he failed to do so before registration of the document.

We reported the matter to the Department and the Government (March 2011); their replies are awaited (December 2011).

CHAPTER -VI Other Tax/Non-Tax Receipts

6.1 Results of audit

Test check of the records relating to land revenue, mining receipts, Guarantee fee, etc. revealed irregularities involving ₹ 29.15 crore in 78 cases, which broadly fall under the following categories:

(₹ in crore)			
Sr. No.	Categories	Number of cases	Amount
A: Revenue and Rehabilitation Department			
Land revenue			
1.	Performance audit of Interest Receipts from Loan and Advances granted by the State Government	01	0.00
2.	Non/short recovery of chowkidara ¹ tax	15	1.10
3.	Non-deduction of service fee/charges	12	0.22
4.	Other irregularities	46	14.11
Total		74	15.43
B-I: Industries and Commerce Department			
B-II: Department of Agriculture			
1.	Non-recovery of guarantee fee	03	12.34
2.	Mining receipts	01	1.38
Total		04	13.72
Grand total		78	29.15

A few cases involving ₹ 13.78 crore and a **performance Audit of Interest Receipts from Loan and Advances** granted by the State Government are discussed in the succeeding paragraphs.

¹ Remuneration paid to the village watchman.

6.2 Performance Audit of Interest Receipts from Loans and Advances granted by the State Government

Highlights

The outstanding loans as on 31 March 2011 stood at ₹ 2,323.84 crore. Finance Department did not have records of details of the outstanding loans as on 31 March 2011.

(Paragraph 6.2.8)

Outstanding recovery of ₹ 35.67 crore as on 31 March 2011 from two Administrative Departments (Co-operation and Housing and Urban Development) in respect of 15 loans was not realised.

{Paragraph 6.2.9 (a)}

Non-repayment of part of loan, interest and penal interest by Agriculture and Housing and Urban Development departments from the total loan of ₹ 18 crore are still unrecovered despite being pointed out in earlier Reports of the Comptroller and Auditor General of India

{Paragraph 6.2.9 (b)}

Irrigation Department sanctioned loans of ₹ 18.10 crore in 23 cases between June 1979 and March 1990 and the loans are still unrecovered despite being pointed out in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2004 (Revenue Receipts) Government of Punjab

{Paragraph 6.2.9 (c)}

Three departments did not prescribe the terms and conditions in 63 loan cases of ₹ 378.97 crore sanctioned between August 1983 and February 2009

(Paragraph 6.2.10)

Department of Agriculture did not recover interest of ₹ 36.18 crore due at the time of conversion of loans into Grant-in-aid

(Paragraph 6.2.12)

None of the test checked departments except (the Co-operations) had maintained prescribed records, though loans of ₹ 198.99 crore were disbursed to these departments.

(Paragraph 6.2.14.1)

6.2.1 Introduction

Interest Receipts is one of the sources of Non-tax revenue of the State Government. The Government grants loans to Public Sector Undertakings, Local Bodies, Co-operative Societies and Government employees for various purposes. The loans usually carry interest, the rate of which is fixed by the sanctioning authority keeping in view the instructions issued by the Government from time to time and the purpose for which loan is provided.

The Punjab Financial Rules (PFR) contain the provisions governing grant of loan, levy and recovery of interest and penal interest etc. The responsibility for recovery of the loans and interest vests with the sanctioning authority. The terms and conditions as specified in the sanctions for loans indicate the manner of repayment of principal and payment of interest. The Government issued instructions in December 1961, which were reiterated in June 1982 for monitoring recovery of the Government loans and interest and also prescribed maintenance of loan registers by the Heads of Departments. It was emphasized that the ledgers be brought upto date and reminders to the loanees for repayment of loan and payment of interest be issued one month in advance of the due date.

6.2.2 Organisational set up

The proposals for grant of loans and advances are processed by the Heads of the Administrative Departments, which issue sanctions on getting concurrence of the Finance Department (FD). The recoveries of loans and interest are watched by the Administrative Departments under overall monitoring by the Finance Department.

6.2.3 Audit objectives

The Performance Audit was carried out to ascertain whether;

- the terms and conditions for repayment of loans and interest were specified in the sanction orders;
- adequate and efficient mechanism for raising of demands of the dues and recovery thereof existed and
- the demands were raised promptly and computed correctly.

6.2.4 Audit criteria

Procedures laid down in the PFR and instructions issued from time to time by the Government of Punjab, (Department of Finance) were used as audit criteria.

6.2.5 Scope and methodology of audit

Mention was made in paragraph 7.2 of the Report of Comptroller and Auditor General of India (Revenue Receipts) for the year ending 31 March 2004 highlighting the shortcomings during the years 1998-99 to 2002-03 regarding non-recovery of interest/penal interest on loans and advances. With a view to further evaluate the efficiency of Departments in ensuring recovery of the principal and interest, test check of records relating to loans and advances

sanctioned by the Departments of Agriculture, Co-operation, Housing and Urban Development, Irrigation, Soil and Water Conservation and Transport for the period 2006-07 to 2010-11, was conducted between April and June 2011. In addition to examination of the overall position of outstanding loans etc., these departments were subjected to detailed scrutiny as the outstanding loan/loan availed by them constituted 45.22 *per cent* of the total outstanding loan as of March 2011.

6.2.6 Acknowledgement

Indian Audit and Accounts Department acknowledges the cooperation of the Finance Department, Agriculture, Co-operation, Housing and Urban Development Irrigation, Soil and Water Conservation and Transport Departments in providing necessary information and records for audit. An Entry Conference was held with the Secretary Finance, Government of Punjab on 9 May 2011. In the meeting, the scope, objectives of audit and issues to be examined were discussed. An exit conference was held with the Secretary (Expenditure) on 3 October 2011 wherein the audit findings were discussed. No written replies were furnished by the Department, however, the contents of discussion are incorporated in the audit paragraphs.

6.2.7 Trend of revenue

The budget estimate for interest receipts, actuals received, and total non-tax revenue of the State for the years 2006-07 to 2010-11 are as under:-

(₹ in crore)

Year	Budget estimates	Actuals	Variation (+) excess (-) shortfall	Percentage of variation	Total non-tax revenue	Percentage of interest receipts to total non-tax revenue
2006-07	811.69	658.57	(-) 153.12	(-) 18.86	7,744.58	8.50
2007-08	831.15	348.38	(-) 482.77	(-) 58.08	5,253.97	6.63
2008-09	199.19	181.98	(-) 17.21	(-) 8.64	5,783.91	3.14
2009-10	137.76	164.69	(+) 26.93	(+) 19.55	5,652.70	2.91
2010-11	143.00	169.37	(+) 26.37	(+) 18.44	5,330.17	3.17

Source – Figures taken from Budget Estimates and Finance Accounts

The percentage of shortfall between the budget estimates and actual receipts ranged between 8.64 to 58.08 during the years 2006-07 to 2008-09. However, the actual receipts was more than the budget estimates during 2009-10 and 2010-11. The percentage of interest receipts as compared to the total non-tax revenue of the State showed downward trend i.e. from 8.50 in 2006-07 to 3.17 in 2010-11.

The reasons for variation between the budget estimates and actual receipt during 2006-07 to 2010-11 were called for from the Departments (July 2011); which are awaited (December 2011).

6.2.8 Outstanding loans

The FD is required to monitor the loans to ensure timely recovery of the loans and interest. However, the FD was not in a position to furnish the Department wise details of the outstanding loan and interest accrued thereon as on 31 March 2011. As per the Finance Accounts of the Government, the position of outstanding loans at the beginning of the year, loans advanced and amount

of loans recovered during the year and loans outstanding at the end of each year during the last five years are as under:-

(₹ in crore)

Year	Opening balance	Loan advanced during the year	Total	Amount Repaid	Balance	Percentage of Repayment
2006-07	5484.24	444.16	5928.40	395.45	5532.95	6.67
2007-08	5532.95	34.84	5567.79	1445.15	4122.64	25.95
2008-09	4122.64	55.07	4177.71	77.63	4100.08	1.86
2009-10	4100.08	28.84	4128.92	1276.02	2852.90	30.90
2010-11	2852.90	68.39	2921.29	597.45	2323.84	20.45

Source – Figures taken from Finance Accounts

The overall outstanding loan has come down from ₹ 5,532.95 crore in 2006-07 to ₹ 2,323.84 crore in 2010-11. The percentage of repayment of loan in the years 2006-07 and 2008-09 remained very low i.e. 6.67 and 1.86. The high percentage of repayment of loan in the years 2007-08, 2009-10 and 2010-11 was due to (i) book adjustment of subsidy ₹ 1,674.11 crore (₹ 13.62 crore-2007-08, ₹ 1140.43 crore-2009-10 and ₹ 520.06 crore 2010-11) payable to Punjab State Power Corporation Ltd. (PSPCL) and (ii) electricity duty payable to the State Government by PSPCL (₹ 52.38 crore in 2009-10) against the outstanding loans due from the Corporation. However, the percentage of repayment of loan in the six tests checked departments remained very poor i.e. between 0.05 and 0.10 *per cent* during the years 2006-07 to 2010-11.

Although the Finance Department is entrusted with the responsibility of monitoring the loans, information regarding the amount of overdue principal and interest and Department/loanee wise outstanding position of the loans was not available with the Department, reflecting the inadequate monitoring mechanism.

6.2.9 Non-recovery of loans and interest

In terms of instructions contained in the PFR and guidelines issued by the Finance Department (F.D.) in December 1961 and June 1982, the Heads of the Departments (HODs) were required to maintain a loan ledger in the prescribed form to keep proper watch over the loan disbursed by the Government and their timely repayment etc. In case of non repayment of loans on the due dates, penal interest at the rates prescribed from time to time was leviable. Further, the HODs were required to issue reminder to the loanee concerned one month in advance of the due date. The officer in charge of the subject in the office of each HOD is required to check all the registers every month and append a certificate to this effect.

(a) We found that the departments of Co-operation and Housing and Urban Development sanctioned 15 loans amounting to ₹ 112.62 crore during the period January 1998 and December 2006. Against these loans, no repayment was made by the loanees whereas a sum of ₹ 35.67 crore was due to be recovered as on March 2011. These Departments made no efforts to recover the due amount of the loans as no demands for the principal amount as well as for interest were raised by them. The details of non-realisation of loan of ₹ 35.67 crore and interest/penal interest of ₹ 56.43 crore are given below:

(₹ in crore)

Sl. No.	Name of the Department/ loanee	Amount of loan/ No. of cases	Month of disbursement	Loan due for repayment loan repaid	Interest realised rate of interest/ penal interest	Amount of interest / penal interest recoverable
1.	<u>Cooperation</u> Punjab State Cooperative Bank	1.08 (4)	Between Janaury,1998 to Janaury,2001	<u>0.17</u> Nil	<u>1.15</u> Intt.12.5 to 13 per cent Penal intt.2.75 per cent	0.54
2.	<u>Co-operation</u> Sugerfed	92.50 (8)	Between March,1995 to December, 2006	<u>25.73</u> Nil	<u>Nil</u> Intt. 7 to 16.5 percent Penal intt.2.75 per cent	46.34
3.	<u>Housing and Urban Development</u> (PUDA-NCR) Patiala	19.04 (3)	Between July,2005 to June,2006	<u>9.77</u> Nil	<u>Nil</u> Intt. 9 per cent Penal intt.2.75 per cent	9.55
	Total	112.62 (15)		<u>35.67</u> Nil		56.43

(b) The Departments of Agriculture and Housing and Urban Development sanctioned four loans amounting to ₹ 18.00 crore during the period August 1996 and March 2003. Non-repayment of part of the loan (₹ 6.36 crore) and non levy of interest/penal interest of ₹ 6.26 crore, that became due had been pointed out in the previous Audit Reports for the year ended March 2001 and March 2007 (Paragraph No. 7.1.6 and 7.5, 7.6). Despite this, no efforts had been made by the Departments to effect recovery of loan of ₹ 11.64 crore and interest/penal interest of ₹ 16.99 crore which had become due as of March 2011. The details are given in the following table:

(₹ in crore)

Sl no.	Name of Department/loanee	Amount of loan/No. of cases	Month of disbursement	Amount of loan partly pointed out /Amount of interest point out		Loan repaid/ loan due for repayment	Amount of interest/ penal interest recoverable
				loan	Interest		
1.	<u>Agriculture</u> Punjab Agro Industries Corporation	5.50 (2)	Between August 1996 and April 1998	2.00 Audit Report, March,2001	2.78	Nil/ 3.50	11.58
2.	<u>Housing And Urban Development</u> PUDA-NCR (Patiala)	12.50 (2)	Between 20.11.2002 to 28.3.2003	4.36 Audit Report, March,2007	3.48	Nil/ 8.14	5.41
	Total	18.00		6.36	6.26	11.64	16.99

(c) It was also noticed that loans of ₹ 18.10 crore in 23 cases sanctioned by the Irrigation Department between June 1979 and March 1990 were still outstanding, despite of the fact that non-repayment of these loans and interest and penal interest leviable on these loans had already been reported in the earlier Audit Reports (Revenue Receipt) for the year ended March 2004. No progress in this regard had so far been made by the Department, in spite of the fact that the repayment schedule in all of these loans had since expired.

The above issues were discussed in the exit conference and the Finance Department agreed to take up the matter with Administrative Department.

6.2.10 Non-prescription of the terms and conditions while sanctioning loans

As per the PFR, the sanctioning authority, while sanctioning the loan, is required to specify the terms and conditions such as the date of commencement of installments, period of repayment of the loans, rate of interest/penal interest etc. For monitoring the repayment of loans etc, the departments while disbursing the loan are required to record all the details in the concerned registers like the loan ledger and the demand and collection and balance register.

In three departments (Co-operation, Irrigation and Soil and Water Conservation), we observed that 63 loans aggregating ₹ 378.97 crore were sanctioned during the period August, 1983 to February, 2009, without prescribing the terms and conditions of the loans. At the standard terms and conditions, interest of ₹ 250.20 crore would arise. In the absence of terms and conditions being specified in the loan sanctions interest was not demanded/recovered. The details

are exhibited in the following table:-

(₹ in crore)

Sr No.	Department/Loanee	Period of sanction of loans	Loan amount No. of cases	Period interest for calculation	Between rate of interest	Amount of Interest
1.	Co-operation (Sugerfed)	Between March, 2000 and April, 2008	106.37 (9)	August, 2001 to March, 2011	8.05 and 11.76 percent	62.00
2.	Co-operation Spinfed	Between Dec, 1999 and March, 2001	23.30 (3)	April, 2003 to March, 2011	8.05 and 10.07 percent	16.60
3.	Irrigation PWRMC	Between Aug, 1983 and June, 1998	235.19 (46)	April, 2003 to March, 2011	8.05 and 10.07 percent	167.62
4.	Soil and Water Conservation / PWRMC	Between Sept, 2005 and Feb, 2009	14.11 (5)	September, 2005 to March, 2011	8.05 and 8.28 percent	3.98
	Total		378.97 (63)			250.20

After this was pointed out in May and June 2011, the Co-operation Department stated (June 2011) that the matter was taken up with the Government for finalisation of the terms and conditions for repayment of loan and interest, while the Irrigation Department stated that the matter was already under the consideration of Government for conversion of the loan as Grants-in-aid. Reply of the Department of Soil and Water Conservation is awaited.

During discussion in exit conference the Finance Department agreed that action would be taken.

6.2.11 Details of outstanding loan and interest not available with the Departments

As per Finance Accounts of the State, in three Departments, loans of ₹ 30.53 crore against 20 schemes (Agriculture - ₹ 14.09 crore against 4 schemes, Cooperative- ₹ 6.31 crore against eight schemes and Housing- ₹ 10.13 crore against eight schemes) were outstanding and awaiting recovery prior to April 2006. An amount of ₹ 1.02 crore towards principal and an amount of ₹ 0.75 crore towards interest has been repaid during the years 2006-07 to 2010-11.

During Performance Audit we noticed that the concerned Departments had no records viz. loan register, demand and collection and balance register to show the details of loans granted, terms and conditions of the loans and description of loanees. The departments took no action for recovery of balance principal loan of ₹ 29.51 crore and interest of ₹ 10.57 crore, worked out at eight percent, the prevailing average rates of interest (details given below):-

(₹ in crore)

Sr. No.	Name of the Department	Loan Balance as on 1 April, 2006	Loan repaid between April, 2006 and March, 2011	Loan balance as on 31 March, 2011	Interest accrued Interest received	Amount of Interest recoverable
1.	Agriculture	14.09	-	14.09	5.64 0.02	5.62
2.	Co-operation	6.31	0.75	5.56	2.37 0.22	2.15
3.	Housing	10.13	0.27	9.86	3.31 0.51	2.80
	Total	30.53	1.02	29.51	11.32 0.75	10.57

This clearly indicates that the departments had failed to monitor and recover the loan and interest due thereon from the loanees.

During discussion in the exit conference the FD agreed on the issue and intimated that Integrated Financial Management System (IFMS) is being implemented with effect from 1 April 2011 and such like details shall be available on this system. The compliance of the Department is yet to be verified in audit (December 2011).

6.2.12 Non-recovery of interest due at the time of conversion of loans into Grant-in-aid

The Agricultural Department disbursed two short term loans aggregating ₹ 87.50 crore to the Punjab Mandi Board in November, 2006 (₹ 37.50 crore) and December, 2006 (₹ 50 crore) at the interest rates of 7.5 and 8 *per cent* for construction of new roads and special repairs. As per the sanction order, the loan of ₹ 50 crore was repayable to the State Government by the end of 2008-09, where as in the case of ₹ 37.50 crore, no terms and conditions were prescribed in the sanction order.

We found that no records regarding grant of loan, accrual/recovery of interest had been maintained by the Agriculture Department. These loans were converted into grant-in-aid by orders of the FD (March 2011). While sanctioning the conversion of the loan to grant-in-aid, the FD did not stipulate any condition relating to recovery of the interest of ₹ 36.18 crore, which had become due (based on 7.5 and 8 *per cent* of interest mentioned in the sanction orders). The Department had also not taken any action to recover the interest due on the loans till the period of conversion. Failure to raise demand for interest upto the date of conversion of the loan into grant resulted in loss of interest of ₹ 36.18 crore to the Government.

During discussion in the exit conference the FD agreed to take corrective measure.

6.2.13 Non-reconciliation of figures of loan balances with the Accountant General (A&E)

As per the instructions (June 1982) of the FD, the HODs are required to reconcile the outstanding loans with that of the figures appeared in the State Finance Accounts.

During test check, we noticed that none of the Departments covered under review had ever reconciled their loan balances (₹ 770.62 crore) during the period 2006-07 to 2010-11, though repeatedly reminded by the A G (A&E) every year.

When we reported the matter to the Departments, it was agreed by them to reconcile the outstanding loans.

6.2.14 Internal Control and Monitoring

6.2.14.1 Non/improper maintenance of records

As per instructions laid down in the PFR and guidelines issued by the Government in December, 1961 and June, 1982, the departments were required to maintain records in the prescribed form so that recovery of installments of principal, interest and penal interest could be monitored.

Review of records, however, revealed that five out of six test checked departments had not maintained the prescribed records. Though loans of ₹ 198.99 crore were disbursed by various departments (i.e. Agriculture- ₹ 98.50 crore, Co-operation- ₹ 61.21 crore, Housing- ₹ 7.77 crore, Soil and Water Conservation- ₹ 11.51 crore and Transport- ₹ 20 crore) between April 2006 and March 2011, yet entries of these loans had not been recorded in any

register. Department of Co-operation though maintained the loan registers, but had not updated the same.

None of the departments had ever raised any demands or issued reminders to the loanees nor maintained detailed accounts for onward submission to F.D. as required in the guidelines.

6.2.14.2 Non-maintenance of detailed accounts

The departments are required to maintain detailed accounts indicating year wise details of arrears of interest, pending collection at the beginning of each year, interest and demanded due, amount of interest waived or written off during the year, amount actually collected during the year and the balance recoverable at the end of year.

None of the departments, test checked had maintained any such detailed accounts, whereas as per the Finance Account for the year 2010-11, the total arrears of loan and advances under different heads pertaining to whole of the State stood at ₹ 2323.84 crore.

6.2.14.3 Non-submission of returns

The departmental officers were required to submit annual returns concerning loan accounts maintained by them every year to the Accountant General (A&E). We found that against 687 returns required to be submitted by 23 departments during 2006-07 to 2010-11, only four returns were submitted to the Accountant General (A&E) by these Department. The year-wise position of statements due and received from the Departments is as under:-

Year	No. of Departments	Statements due	Statements received
2006-07	20	151	-
2007-08	23	162	-
2008-09	23	162	-
2009-10	23	106	2
2010-11	23	106	2
Total		687	4

This clearly indicates lack of proper monitoring of interest receipts.

Reasons for non-maintenance of record, detailed accounts and non-submission of annual returns, though called for from the Government (April 2011), have not been received (December 2011).

No comment was forwarded by the Department in exit conference in respect of para No. 6.2.13 to 6.2.14.

6.2.15 Conclusion

The several instances of outstanding loans and non recovery of interest on loans given by the State Government enumerated in the foregoing paragraphs indicated that the departments failed to ensure timely repayment of loans and advances thereby affecting the ways and means position of the State Exchequer. The Finance Department did not monitor the overdue loans and advances and recovery of interest/penal interest, even though clear guidelines in this regard had been issued by them.

Resultantly, the Government lost revenue to the extent of ₹ 353.38 crore on account of interest/ penal interest on outstanding loan. Thus, the departments have not only failed to maintain the proper records as envisaged in the Rules for monitoring the liquidation of loan and recover the interest due thereon but also failed to safeguard the interest of the Government. Absence of monitoring of the recovery of loan and interest also shows the poor financial management of the Government.

6.2.16 Recommendations

Government need to:-

- *ensure maintenance of basic records like loan ledgers and Demand, Collection and Balance (DCB) registers by the Departments availing Government loans and having outstanding past loans;*
- *ensure prompt recovery of the loans and advances and interest thereon by strictly monitoring the position of overdue principal and interest ;*
- *ensure that loans are not disbursed without specifying the terms and conditions for repayment and*
- *direct the Departments to update the details of outstanding loans, interest due to be collected etc. and reconcile the figures with that of the Accountant General (A&E) to ensure correct accounting.*

6.3 Other audit observations

During scrutiny of the records relating to the departments of Revenue and Rehabilitation (land revenue), Industries and Commerce (Mining) and Agriculture (Guarantee fee), we noticed some cases of non-observance of the provisions of the Act/Rules and Government instructions resulting in non deduction of service fee/charges, non-recovery of guarantee fee and non realisation of royalty as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out by us. We point out such omissions in audit repeatedly, but not only the irregularities persist, they also remain undetected till we conduct audit. The Government needs to improve the internal control system to avoid occurrence of such cases in future.

A: Revenue and Rehabilitation Department

Land revenue

6.4 Non-recovery of service charges

DRO, Fatehgarh Sahib

❖ The Punjab Land Revenue Act provides that the cost of any process linked with the collection of land revenue shall be recoverable as part of the arrears of land revenue.

❖ The Punjab Land Revenue Rules provide that two *per cent* of the collection shall be deducted as service charges by the collector.

❖ Further, the instructions issued by the Government in July 2007 provide for overall charging of service charges at the rate of five *per cent* in cases of recoveries effected from the defaulters on behalf of the corporations, boards and banks which are bifurcated into:

(i) The requisitioning authority will deposit with the recovery officer in advance the non-refundable service charges at the rate of two *per cent* of the total amount of recovery mentioned in the revenue recovery certificate (RRCs).

(ii) The service charges at the rate of three percent shall also be recovered from the total recoveries affected under the land revenue Act.

We found (December 2009) that

(a) Revenue Recovery certificates (RRCs) involving dues of ₹ 1.31 crore were accepted by the District Revenue Officer (DRO) without getting the advance payment of service charges of ₹ 2.62 lakh from the corporations, boards and banks in contravention of the Government instructions.

(b) We saw that though arrears of land revenue of ₹ 1.14 crore was recovered by the DRO (between October 2007 to September 2009), service charges of ₹ 3.43 lakh at the rate of three *per cent* of the arrears recovered was neither deducted nor demanded from the corporations, boards and banks.

Thus, non-compliance of the Rules and Government instructions resulted in non-realisation of revenue of ₹ 6.05 lakh.

When we pointed out (December 2009), the DRO stated that matter regarding recovery of service charges was in progress. The reply of the DRO is not accepted as RRCs were required to be accepted with advance payment of service charges.

We reported the matter to the Department and Government (April 2011); the reply is awaited (December 2011).

B-I: Industries and Commerce Department

B-II: Department of Agriculture

6.5 Non-recovery of guarantee fee

In consonance with the powers conferred by Article 293 of the Constitution of India, the State Government gives guarantees on the Consolidated Fund of the State to various financial institutions/banks lending money to the Public Sector undertakings so as to assure them repayment of the loans, in the event of default by the borrowers. Such guarantees constitute contingent liabilities of the State. The Government had laid down terms and conditions governing the sanctions for guarantees according to which the borrowers must ensure that the prescribed guarantee fee are paid.

We observed (February 2011) that the State Government had issued three notifications between March and October 2009 permitting Punjab Rural Development Board (PRDB), Punjab State Industrial Development Corporation Ltd. (PSIDC) and Punjab Financial Corporation (PFC) to raise loans of ₹ 617 crore from banks and stood as guarantor assuring the banks repayment of loans in the event of default by the

borrowers. The terms and conditions of the notifications provided for deposit of guarantee fee by the borrowers at the rate of two *per cent* of the guaranteed loan at the time of availing the guarantee. But guarantee fee of ₹ 12.34 crore was neither deposited by PRDB, PSIDC and PFC in the Government account nor demanded by the Administrative Department as detailed below:

(₹ in crore)					
Sr. No.	Name of institution	Purpose of the loan	Year of guarantee	Amount of loan guaranteed	Guarantee fee not paid
1.	Punjab Rural Development Board	i) Construction/ Repair of Link Roads ii) Comprehensive Rural Development	2009-10	500	10.00
2.	Punjab State Industrial Development Corporation Ltd.	Private Placement of Bonds for raising funds for meeting financial commitments	2009-10	100	2.00
3.	Punjab Financial Corporation	Repayment of principal and interest Bonds under section 7 of SFC Act, 1951	2009-10	17	0.34
Total				617	12.34

Similar and persistent audit observations in respect of PFC, PRDB and PMB had been pointed out in paragraph 7.4 and 4.5 of the Report of the Comptroller and Auditor General of India for the years ended 31 March 2009 and 31 March 2010 respectively.

When we pointed out (February 2011), the borrowers-PSIDC stated (May 2011) that as per decision taken in the meeting held under the chairmanship of Chief Secretary to the Government of Punjab, the Corporation was liable to pay the guarantee fee outstanding as on March 2011 and it would be paid out of the proceeds of the privately placed bonds to be floated in due course. Whereas it was stated (May 2011) by PFC that as per decision taken in the meeting held (January 2011) under the chairmanship of Chief Secretary Punjab Government, the guarantee fee was payable by the Corporation and would be paid as and when the financial position of the Corporation improved. The reply of Punjab Rural Development Board is still awaited.

We reported the matter to the departments and the Government in March, 2011; their replies are awaited (December 2011).

6.6 Mining Receipts

We noticed the following observations during test check of the records in the offices of the Director of Industries and Commerce and the Mining officers at districts level on the extraction of minor minerals.

6.6.1 Non-realisation of royalty

District Mining Officers, Hoshiarpur and Tarn Taran

The Department of Industries and Commerce vide their Notification in January 2002 revised the annual rate of royalty for the manufacture of bricks in brick kilns. The rates were further revised vide Notification issued in April, 2008.

The Punjab Minor Mineral Concession Rules 1964 as amended provide for cancellation of quarry permits in case of breach of any condition of it.

We found (December 2010) that there was a recoverable royalty of ₹ 1.12 crore from 128 Brick Kiln Owners (BKO) as on March 2008, which accumulated to ₹ 1.56 crore as on March 2010 due to annual increase in royalty at the yearly rate of ₹ 0.22 crore. Against this, the Department recovered an amount of ₹ 18.30 lakh (₹ 14.60 lakh upto March 2008, ₹ 0.75 lakh during 2008-09 and ₹ 2.90 lakh during 2009-10) by March 2010. Thus, the recovery was very low and it ranged range between 0.63 to 13.04 per cent. In 128 cases, royalty was neither paid fully by the BKOs nor

was demanded by the District Mining Officers (DMOs). No action was taken either to cancel the permits of defaulters or to recover the royalty as arrears of land revenue, resulting in non-realisation of revenue of ₹ 1.38 crore.

When we pointed out (December 2010), the DMO, Tarn Taran accepted that recovery could not be made due to shortage of field staff. He further stated that the process of recovery had been started and would be completed shortly.

The DMO, Hoshiarpur stated that recovery would be made after initiating correspondence with the BKO.

We reported the matter to the Department and the Government (January 2011); their replies are awaited (December 2011).



Chandigarh :
The

(MOHINDER SINGH)
Principal Accountant General (Audit), Punjab

21 FEB 2012

Countersigned



New Delhi :
The

(VINOD RAI)
Comptroller and Auditor General of India

21 FEB 2012



ANNEXURE: A
Audit Plan for the year 2010-11 (Para 1.3.1)

Sr. No.	Category/Nature of receipt	Total Number of auditable units				No. of Units planned during the year			
		A	B	T	O	A	B	T	O
Sales Tax/VAT									
1.	AETC VAT Audit and Refund	24	-	-	-	24	-	-	-
2.	Information Collection Centres	2	10	23	-	2	5	8	-
3.	A.E.T.C. Mobile Wing	-	6	-	-	-	3	-	-
4.	Sales Tax Contingency	-	-	-	29	-	-	-	-
Other Receipts									
1.	State Excise	16	34	11	-	16	17*	4	-
2.	Stamp Duty and Registration Fee	60	99	-	20	60	48	-	-
3.	Motor Vehicles Tax	50	29	24	-	50	14	8	-
4.	Entertainment Duty and Luxury Tax	-	-	24	-	-	-	8	-
5.	Electricity Duty	2	-	-	-	2	-	-	-
6.	Land Revenue	-	-	98	-	-	-	30	-
7.	Forest Receipts	28	-	9	-	28	-	3	-
8.	Lotteries	2	-	-	-	2	-	-	-
	Total Units	184	178	189	49	184	87	61	-
		600				332			

A: Annual
B: Bi-annual
T: Tri-annual
O: Occasional

* The audit of one unit could not be conducted being closed unit

