

Preface

This report for the year ended 31 March 2009 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 2008-09 as well as which were noticed in earlier years but could not be included in previous years' reports.

OVERVIEW

This report contains 50 paragraphs including two reviews relating to non/short levy of taxes, duties, interest and penalty etc., involving Rs. 218.15 crore. Some of the major findings are mentioned below:

I. General

The total receipts of the State Government for the year 2008-09 were Rs. 20,712.79 crore. Revenue raised by Government during the year was Rs. 16,934.10 crore, comprising tax revenue of Rs. 11,150.19 crore and non-tax revenue of Rs. 5,783.91 crore. The State Government also received Rs. 2,084.01 crore as State's share of divisible Union taxes and Rs. 1,694.68 crore as grants in aid from Government of India.

(Paragraph 1.1.1)

Tax revenue in the year 2008-09 showed an increase of 13 *per cent* over 2007-08. Sales tax receipts of Rs. 6,435.63 crore amounted to 58 *per cent* of the tax revenue collected during the year 2008-09.

(Paragraph 1.1.2)

There was increase of 10 *per cent* in non-tax revenue during the year 2008-09 over 2007-08.

(Paragraph 1.1.3)

Arrears of revenue at the end of the year 2008-09, as reported by some of the departments were Rs. 1,357.06 crore. Of this, Rs. 860.10 crore was recoverable from various dealers on account of sales tax/VAT.

(Paragraph 1.6)

4,494 inspection reports issued upto December 2008 containing 9,227 audit observations with money value of Rs. 3,223.30 crore were outstanding for want of final replies from the departments as on 30 June 2009.

(Paragraph 1.11)

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 2008-09 revealed under assessments, short/non-levy, loss of revenue etc. amounting to Rs. 295.59 crore in 2,021 cases. The departments accepted under assessment of Rs. 5.46 crore in 562 cases pointed out in 2008-09 and earlier years and recovered Rs. 2.46 crore.

(Paragraph 1.16)

II. Taxes on Sales, Trade etc.

Incorrect levy of concessional rate without prescribed declaration in C forms resulted in short levy of tax of Rs. 40.96 lakh.

(Paragraph 2.3.1)

Utilisation of input tax credit of Rs. 22.84 lakh towards output tax liability on account of sale of non-exempted goods resulted in short levy of tax Rs. 22.84 lakh.

(Paragraph 2.3.7)

Non-inclusion of central excise duty in the sales turnover in the self assessment return filed by the dealer resulted in under assessment of tax of Rs. 60.72 lakh.

(Paragraph 2.5.1)

Excess availment of input tax credit on branch transfer of goods by a dealer resulted in short levy of tax of Rs. 30 lakh.

(Paragraph 2.5.2.1)

III. Taxes on Vehicles

Special road tax/motor vehicle tax amounting to Rs. 2.84 crore was paid short/not paid by State Roadways/private transport companies during 2006-07 and 2007-08.

(Paragraph 3.3.1)

Special road tax/token tax of Rs. 73.99 lakh including interest and penalty from owners of tourist buses during 2007-08 was not realised.

(Paragraph 3.3.2)

Incorrect application of rates resulted in short levy of motor vehicle tax of Rs. 69.30 lakh.

(Paragraph 3.3.3)

Non-levy of interest and penalty on delayed payment of special road tax by State Transport Corporations resulted in loss of Rs. 2.07 crore.

(Paragraph 3.3.6)

IV. State Excise

Failure to achieve/enforce the norms for yield of spirit from molasses deprived the Government of excise duty of Rs. 10.59 crore during 2006-07 and 2007-08.

(Paragraph 4.3.1)

Non-raising of demand resulted in non-realisation of cost of establishment charges of Rs. 10.57 lakh.

(Paragraph 4.3.2)

V. Stamp Duty and Registration Fees

Incorrect remission of registration fee under the Registration Act, 1908 resulted in loss of revenue of Rs. 30.09 crore.

(Paragraph 5.3.1)

Stamp duty and registration fee amounting to Rs. 1.72 crore was levied short on sale deeds executed for sale of commercial/residential/agricultural property and built up houses due to undervaluation.

(Paragraph 5.3.2)

Non-execution of the conveyance deeds by the allottees of plots and flats resulted in blockage of revenue of Rs. 2.60 crore.

(Paragraph 5.5)

VI. Other Tax Receipts

A review of **Internal control in the Land Revenue Department for recovery of dues treated as arrears of land revenue** revealed the following:

- No effective control mechanism was in place for monitoring and reconciliation of the revenue recovery certificates sent to other districts/States.

(Paragraph 6.2.7)

- Internal control mechanism prescribed for recovery and reporting was deficient leading to huge variations between the number and amount of revenue recovery certificates sent by the collectors and accounted by the Tehsildars.

(Paragraph 6.2.8)

- Absence of internal control for periodical review of recovery of dues, coupled with inaction resulted in poor recovery, which ranged between 1.61 and 5.45 *per cent* during the review period. 82.61 to 92.15 *per cent* cases were pending for recovery with the department.

(Paragraph 6.2.9)

- Non-compliance of the provisions relating to service/collection charges resulted in non-realisation of Rs. 82.10 lakh revenue to the State Government besides departure from prescribed instructions.

(Paragraph 6.2.11)

- Non-compliance of provisions of the Punjab Land Revenue Act, 1887 regarding the writ of demand resulted in delay from seven to 36 months for initiating the recovery process.

(Paragraph 6.2.14)

Non-raising of demands of penal rent from unauthorised occupants of Government agricultural land resulted in loss of revenue of Rs. 1.62 crore.

(Paragraph 6.4)

Failure on the part of the Chief Electrical Inspector to verify the correctness of levy and collection of electricity duty resulted in non-demand/recovery of differential electricity duty of Rs. 25.46 crore.

(Paragraph 6.5)

VII. Non-Tax Receipts

A review of **Receipts of Urban Development and Town Planning Department** revealed the following:

- Failure on the part of Chief Town Planner to demand the licence/permission fee against the services rendered by the department resulted in loss of revenue of Rs. 46.02 crore.

(Paragraph 7.2.9)

- Failure on the part of the Chief Town Planner, Punjab to recover the conversion charges resulted in irregular retention of Government receipts of Rs. 15.08 crore by Greater Mohali Area Development Authority.

(Paragraph 7.2.11)

- Due to inaction on the part of the Chief Town Planner, planning charges of Rs. 34.73 crore remained to be realised.

(Paragraph 7.2.12)

Guarantee fee amounting to Rs. 24.07 crore was not deposited in the Government account by Punjab State Industrial Development Corporation and Punjab Financial Corporation between November 2000 and October 2006.

(Paragraph 7.4)

Failure on the part of the Directorate of Lotteries to approach the Government for the fixation of the quantum of deduction towards the establishment cost resulted in non-deduction of the establishment cost of Rs. 7.36 crore

(Paragraph 7.6)

Capitation fee of Rs. 4.25 crore was not collected in advance from the Government of Uttarakhand for the training imparted to their police personnel between April 2006 and February 2007.

(Paragraph 7.7)

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 2008-09, the share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are given below:

(In crore of rupees)						
Sr.no.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
I	Revenue raised by the State Government					
	• Tax revenue	6,944.63	8,989.38	9,017.16	9,899.17	11,150.19
	• Non-tax revenue ¹	5,358.03 (2,739.06)	4,536.33 (1,439.47)	7,744.58 (5,699.85)	5,253.97 (1,787.80)	5,783.91 (2,264.36)
	Total-I	12,302.66 (9,683.69)	13,525.71 (10,428.85)	16,761.74 (14,717.01)	15,153.14 (11,686.97)	16,934.10 (13,414.55)
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	902.35	1,227.45	1,565.75	1,974.99	2,084.01
	• Grants-in-aid	602.47	2,213.32	2,239.65	2,109.49	1,694.68
	Total II	1,504.82	3,440.77	3,805.40	4,084.48	3,778.69
III	Total receipts of the State Government (I+II)	13,807.48 (11,188.51)	16,966.48 (13,869.62)	20,567.14 (18,522.41)	19,237.62 (15,771.45)	20,712.79² (17,193.24)
IV	Percentage of I to III	89	80	81	79	82

The above table indicates that during the year 2008-09, the revenue (Rs. 16,934.10 crore) raised by the State Government was 82 *per cent* of the total revenue receipts (Rs. 20,712.79 crore) against 79 *per cent* in the preceding year. The balance 18 *per cent* of the receipts during 2008-09 were received from the Government of India.

1.1.2 The following table presents the details of tax revenue raised during the

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 2008-09. 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.

period from 2004-05 to 2008-09:

(In crore of rupees)

Sr. no.	Revenue head	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	VAT ³ / Sales tax	3,337.15	4,270.28	4,503.31	5,014.50	6,166.46	(+) 22.97
	Central sales tax	479.23	356.60	325.71	327.99	269.17	(-) 17.93
2.	State excise	1,486.62	1,568.16	1,367.79	1,861.52	1,809.95	(-) 2.77
3.	Stamp duty and registration fees	965.89	1,670.50	1,803.93	1,567.84	1,730.29	(+) 10.36
4.	Taxes and duties on electricity	251.65	669.41	527.58	603.80	631.33	(+) 4.56
5.	Taxes on vehicles	403.93	431.19	468.05	499.45	524.09	(+) 4.93
6.	Other taxes and duties on commodities and services	6.43	6.95	5.52	6.76	3.46	(-) 48.82
7.	Land revenue	13.73	16.29	15.27	17.31	15.44	(-) 10.80
Total		6,944.63	8,989.38	9,017.16	9,899.17	11,150.19	(+) 12.64

The Excise and Taxation Department mentioned the following reasons for increase in sales tax/VAT during 2008-09 over those of 2007-08.

The increase of 22.97 *per cent* was due to levy of VAT on tobacco, besides increase in prices of various commodities.

The other departments did not intimate (September 2009) the reasons for variations in receipts from that of the previous year despite being requested (July 2009).

1.1.3 The following table presents the details of the major non-tax revenue raised by the State during the period from 2004-05 to 2008-09:

(In crore of rupees)

Sr. no.	Revenue head	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage of increase (+)/ decrease (-) in 2008-09 over 2007-08
1.	Interest receipts	1,890.29	644.07	658.57	348.78	181.98	(-) 47.82
2.	Dairy development	0.15	0.52	0.12	0.09	0.09	0.00
3.	Other non-tax receipts	344.69	459.44	509.28	441.62	760.97	(+) 72.31
4.	Forestry and wild life	14.70	11.80	14.62	14.70	15.52	(+) 5.58

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

5.	Non-ferrous mining and metallurgical industries	11.40	10.79	12.72	16.03	37.07	(+) 131.25
6.	Miscellaneous general services (including State lotteries)	2,804.25	3,244.37	6,386.49	4,189.72	4,567.80	(+) 9.02
7.	Major and medium irrigation	90.96	26.17	20.14	20.02	11.85	(-) 40.81
8.	Medical and public health	48.85	44.22	42.82	48.12	47.63	(-) 1.02
9.	Co-operation	3.40	3.37	5.02	4.60	4.55	(-) 1.09
10.	Public works	63.40	11.66	12.26	16.83	17.52	(+) 4.10
11.	Police	52.43	33.62	36.68	44.71	58.58	(+) 31.02
12.	Other administrative services	33.51	46.30	45.86	108.75	80.35	(-) 26.11
Total		5,358.03 (2,739.06)	4,536.33 (1,439.47)	7,744.58 (5,699.85)	5,253.97 (1,787.80)	5,783.91 (2,264.36)	(+) 10.09 (+) 26.66

The Police department mentioned the following reasons for increase/decrease in receipts during 2008-09 over those of 2007-08:

The increase of 31.02 *per cent* was due to recovery of police cost from other Governments against deployment of Punjab police.

The other departments did not intimate (September 2009) the reasons for the variations in receipts from that of the previous year despite being requested (July 2009).

1.2 Initiatives for mobilisation of additional resources

In the budget for the year 2008-09, the State Government had mentioned creation of a 'Punjab State Development Fund' (PSD Fund) to facilitate smooth flow of funds for activities in the field of education, health and social welfare. The PSD Fund would consist of five *per cent* of the amount realised from the bidders, from sale proceeds of all immoveable properties auctioned by the Urban Development Authorities, Punjab State Industrial Export Corporation, Department of colonisation and any other Government Instrumentality from 2 April 2007. The PSD Fund would be operated and managed by the Department of Finance.

The notification for the levy of five *per cent* PSD Fund on the sale proceeds of immoveable properties auctioned by the aforesaid agencies from 2 April 2007 onwards was issued on 31 March 2008. During the year 2008-09 an amount of Rs. 65.05 crore was collected.

1.3 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2008-09 in respect of the main heads of tax and non-tax revenue are mentioned below:

Audit Report (Revenue Receipts) for the year ended 31 March 2009

(In crore of rupees)

Sr. no.	Revenue head	Budget estimates	Actuals	Variations excess (+)/ short fall (-)	Percentage of variation
A. Tax revenue					
1.	VAT/Sales tax/ Central sales tax/ Luxury tax	6,290.00	6,435.63	(+) 145.63	(+) 2.32
2.	State excise	1,830.01	1,809.95	(-) 20.06	(-) 1.10
3.	Stamp duty and registration fees	1,870.00	1,730.29	(-) 139.71	(-) 7.47
4.	Taxes on vehicles	576.00	524.09	(-) 51.91	(-) 9.01
5.	Taxes and duties on electricity	653.00	631.33	(-) 21.67	(-) 3.32
6.	Other taxes and duties on commodities	9.00	3.46	(-) 5.54	(-) 61.56
7.	Land revenue	19.00	15.44	(-) 3.56	(-) 18.74
B. Non-tax revenue					
1.	Interest receipts	199.19	181.98	(-) 17.21	(-) 8.64
2.	Road transport ⁴	232.67	115.86	(-) 116.81	(-) 50.20
3.	Major and medium irrigation	24.40	11.85	(-) 12.55	(-) 51.43
4.	Police	46.08	58.58	(+) 12.50	(+) 27.13
5.	Public works	14.80	17.52	(+) 2.72	(+) 18.38
6.	Crop husbandry	11.85	9.23	(-) 2.62	(-) 22.11
7.	Forestry and wild life	17.70	15.52	(-) 2.18	(-) 12.32
8.	Miscellaneous general services (including State lotteries)	4,380.71	4,567.80	(+) 187.09	(+) 4.27

The reasons for the variation as furnished by the department of Agriculture is given below:-

Crop Husbandry: The decrease of 22.11 *per cent* was due to renewal of less number of licenses for sale of fertilizer, plant protection equipments, pesticides and weedicides.

The other departments did not intimate (September 2009) the reasons for variations despite being requested (July 2009).

1.4 Analysis of collection

The breakup of the total collection at pre assessment stage and after regular assessment of VAT/sales tax, for the year 2008-09 and the corresponding figures for the preceding two years as furnished by the department is mentioned below:

⁴ Budget estimates were revised from Rs. 232.67 crore to Rs. 117.90 crore by the Finance Department in February 2009.

(In crore of rupees)

Sr. no.	Year	Amount collected at pre assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 7 to 3
1	2	3	4	5	6	7	8
1.	2006-07	4,967.60	37.08	3.25	220.05	4,787.88	96.38
2.	2007-08	6,128.94	49.04	14.15	320.84	5,871.29	95.80
3.	2008-09	7,397.86	14.67	4.27	373.80	7,043.00	95.20

The above table shows that the net collection of revenue ranged between 95.20 and 96.38 *per cent* of the collection at pre assessment stage during the years 2006-07 to 2008-09.

1.5 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 2008-09 alongwith the relevant all India average percentage of expenditure on collection are mentioned below:

(In crore of rupees)

Sr. no.	Revenue head	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the year 2007-08
1.	Taxes on sales, trade etc./VAT	2006-07	4,829.02	41.78	0.87	0.83
		2007-08	5,342.49	45.81	0.86	
		2008-09	6,435.63	48.53	0.75	
2.	Taxes on vehicles	2006-07	468.05	7.33	1.57	2.58
		2007-08	499.45	7.66	1.53	
		2008-09	524.09	9.20	1.76	
3.	Stamp duty and registration fees	2006-07	1,803.93	30.21	1.67	2.09
		2007-08	1,567.84	18.22	1.16	
		2008-09	1,730.29	23.69	1.37	
4.	State excise	2006-07	1,367.79	12.26	0.90	3.27
		2007-08	1,861.52	13.27	0.71	
		2008-09	1,809.95	14.57	0.80	

1.6 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2009 in respect of some principal heads of revenue amounted to Rs. 1,357.06 crore of which Rs. 618.97 crore

was outstanding for more than five years as detailed below:

(In crore of rupees)				
Sr. no.	Head of revenue	Amount outstanding as on 31 March 2009	Amount outstanding for more than 5 years as on 31 March 2009	Remarks
1.	Taxes on sales, trade etc./VAT	860.10	401.48	Recovery of arrears of Rs. 354.98 crore were stayed by the High Court/judicial/departmental authorities. Demands of Rs. 1.35 crore were covered by recovery certificates; recovery of Rs. 4 crore was outstanding as dealers had become insolvent; demands of Rs. 25.28 crore were likely to be written off; demands of Rs. 2.52 crore were being recovered in instalments and the balance amount of Rs. 471.80 crore was at different stages of action. Recovery of Rs. 16.88 lakh was held up due to rectification.
2.	State excise	11.60	11.60	Demands of Rs. 1.58 crore were covered by recovery certificates; recovery of Rs. 47 lakh was stayed by the High Court/other judicial and departmental authorities; recovery of Rs. 1.13 lakh was outstanding as licencees had become insolvent. Demands amounting to Rs. 3.22 crore were likely to be written off; Rs. 58 lakh were being recovered in instalments; recovery of Rs. 7.19 lakh was held up due to rectification and the balance of Rs. 5.67 crore was at different stages of action.
3.	Taxes and duties on electricity	148.43	35.21	Recovery of Rs. 56 lakh was stayed by the High Court/other judicial and departmental authorities. No reasons for non-recovery of the balance amount of Rs. 147.87 crore were intimated by the department.
4.	Taxes on vehicles	109.20	46.17	Recovery of Rs. 19.39 lakh was stayed by the High Court/ judicial authorities. Demands of Rs. 12.64 lakh were likely to be written off. No reasons for non-recovery of the balance amount of Rs. 108.88 crore were intimated by the department.
5.	Interest receipts			
	1. Pepsu Road Transport Corporation	67.50	48.98	Non-payment of interest liability was attributed to paucity of funds.
	2. Punjab State Tubewell Corporation	10.23	10.23	Non-payment of interest liability was attributed to having no source of income.
6.	Irrigation	135.87	64.37	Reasons for non-recovery of arrears were not intimated by the department.
7.	Forestry and wild life	13.82	0.91	Demand of Rs. 72.39 lakh was covered by recovery certificates. Recovery amounting to Rs. 39.61 lakh was likely to be written off; Rs. 65.67 lakh was being recovered in instalments; Rs 10.94 crore was recoverable from PSFDC ⁵ for royalty and the balance amount of Rs.1.10 crore was at different stages of action.
8.	Co-operation	0.31	0.02	Reason for non-recovery of Rs 31 lakh was not intimated by the department.
Total		1,357.06	618.97	

The arrears outstanding for more than five years constituted 45.61 per cent of the total arrears.

⁵ Punjab State Forest Development Corporation.

1.7 Arrears in assessments

The number of cases pending for assessment at the beginning of the year 2008-09, becoming due during the year, disposed during the year and pending at the end of each year during 2004-05 to 2008-09 as furnished by the department in respect of sales tax 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
2004-05	2,93,183	1,49,621	4,42,804	1,46,836	2,95,968
2005-06	2,95,968	1,46,121	4,42,089	1,58,593	2,83,496
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 ⁶
2008-09	80,650	—	80,650	27,623	53,027

The VAT has been introduced in the State from April 2005 and there is no regular assessment under VAT. The department needs to complete the pending assessments cases pertaining to pre-VAT period in a time bound manner.

1.8 Evasion of tax

The details of cases of evasion of tax detected by the departments, cases finalised and the demand for additional tax raised during 2008-09 as reported by the departments are given below:

Sr. no.	Revenue head	Cases pending as on 31 March 2008	Cases detected during 2008-09	Total no. of cases	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2009
					No. of cases	Amount (In crore of rupees)	
1.	Sales tax/VAT	3,307	1,725	5,032	2,706	17.84	2,326
2.	Taxes on vehicles	182	79	261	42	0.86	219
3.	Public health	4	-	4	-	0.00	4
4.	State excise	1	-	1	1	0.01	-

1.9 Write off and waiver of revenue

During the year 2008-09, demands for Rs. 17.24 crore in 441 cases were written off as reported by the departments. The details are mentioned below:

⁶ Closing balance includes 2,47,273 cases pertaining to VAT and there is no provision of regular assessment under the Punjab Value Added Tax Act 2005.

(In crore of rupees)

Sr. no.	Reasons	Sales tax/VAT		State excise		Total	
		Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
1.	Whereabouts of defaulters not known	120	5.14	39	0.55	159	5.69
2.	Defaulters no longer alive	40	1.35	22	0.62	62	1.97
3.	Defaulters not having any property	109	7.72	37	0.59	146	8.31
4.	Defaulters adjudged as insolvent	17	0.45	14	0.39	31	0.84
5.	Records not traceable	14	0.08	-	-	14	0.08
6.	Others	15	0.22	14	0.13	29	0.35
Total		315	14.96	126	2.28	441	17.24

1.10 Refunds

The number of refund cases pending at the beginning of the year 2008-09, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2008-09, as reported by the Excise and Taxation Department are mentioned below:

(In crore of rupees)

Sr. no.	Reasons	VAT/Sales tax		State excise		Total	
		Number	Amount	Number	Amount	Number	Amount
1.	Cases outstanding at the beginning of the year	3,214	124.02	84	0.19	3,298	124.21
2.	• Cases received during the year	10,621	496.66	61	1.96	10,682	498.62
	• Cases rejected	46	5.89	-	-	46	5.89
3.	Refunds made during the year	8,666	373.80	31	1.76	8,697	375.56
4.	Balance outstanding at the end of the year	5,123	240.99	114	0.39	5,237	241.38

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

The Principal Accountant General (Audit) Punjab arranges to conduct periodical inspection of various offices of the Government departments to test check transactions of tax and non-tax receipts and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed by issue of inspection reports (IRs) to the heads of offices with a copy to the next higher authorities. The State Government prescribed that first replies to the IRs should be sent to audit within a period of four weeks by the executive after ensuring action in compliance with the prescribed Acts, Rules and procedures and fixing accountability for the deficiencies, lapses, etc., noticed during inspection. Serious irregularities are also brought to the notice of the heads of the departments. A half yearly report of pending IRs is also sent to the Secretary of the department to facilitate monitoring of the audit observations at the Government level.

IRs issued upto 31 December 2008 pertaining to the offices under Excise and Taxation, Revenue, Forests, Power and Irrigation, Transport and Finance departments disclosed that 9,227 observations relating to 4,494 IRs involving Rs. 3,223.30 crore were outstanding at the end of June 2009. Of these, 4,204 IRs containing 8,439 observations involving Rs. 2,453.22 crore were pending for settlement for more than one year. The year wise position of the outstanding IRs and observations is detailed in Appendix-I.

In respect of 295 observations relating to 139 IRs involving Rs. 1,203.70 crore issued upto December 2008, even the first replies, which were required to be received from the heads of offices within four weeks from the date of issue of IRs had not been received.

A review of the IRs which were pending due to non-receipt of replies, in respect of various departments, revealed that the heads of offices and the heads of the departments failed to send reply to a large number of IRs/observations. The heads of department/Administrative Secretaries to the Government, who were informed of the position through half yearly reports, also did not ensure timely action. Such inaction would result in continuation of serious financial irregularities and loss of revenue to the Government.

It is recommended that the Government may look into this matter to ensure that replies to the IRs/observations are sent as per the prescribed time schedule, recovery of loss/under assessment is effected in a time bound manner and system of response to audit observations in the department is revamped.

1.12 Departmental audit committee meetings

For expeditious settlement of the outstanding audit observations contained in the IRs, audit committees were constituted (March 1985) in all the departments.

In order to expedite clearance of the outstanding audit observations, it is necessary that audit committees should meet regularly and ensure appropriate action on all audit observations leading to their settlement. During the year 2008-09, out of nine departments only one department convened three audit committee meetings in which 49 paras were settled. The departments concerned had not convened audit committee meetings to discuss IRs on revenue receipts relating to state excise, entertainment duty/tax, state lotteries, forest, land revenue, stamp duty and registration fees, taxes on vehicles and power and irrigation. This indicates that the Government departments had not taken initiative to use the machinery created for expeditious settlement of the outstanding audit observations.

1.13 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.

Fifty paragraphs/reviews included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2009 were forwarded to the secretaries of the respective departments between April 2008 and April 2009 through demi official letters. Replies to 42 of the paragraphs have not been received.

1.14 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 193 paragraphs/reviews included in Audit Reports relating to the period 2002-03 to 2007-08, which had already been laid before the State Legislature, action taken notes (ATNs) in respect of 101 paragraphs/reviews were not received as on June 2009 even after the lapse of the prescribed period of three months. The outstanding ATNs date back to 2002-03 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
2002-03	25 June 2004	34	4
2003-04	31 March 2005	23	5
2004-05	13 March 2006	25	10
2005-06	29 March 2007	30	18
2006-07	12 March 2008	32	15
2007-08	4 March 2009	49	49
Total		193	101

Though the time limit of three months for furnishing the ATNs for the Audit Report for the period from 2002-03 to 2007-08 has elapsed, the departments have not submitted/furnished remedial ATNs on the paragraphs.

1.15 Compliance with the earlier Audit Reports

During the years between 2003-04 and 2007-08, the departments/Government accepted audit observations involving Rs. 79.39 crore, out of which an amount of Rs. 7.02 crore was recovered till 31 March 2009 as mentioned below:

Sr. no.	Year of Audit Report	Total money value	Accepted money value	(In crore of rupees)
				Recovery made
1.	2003-04	367.23	6.74	2.29
2.	2004-05	101.11	32.13	1.79
3.	2005-06	245.62	2.17	0.40
4.	2006-07	197.96	2.89	1.91
5.	2007-08	352.33	35.46	0.63
Total		1,264.25	79.39	7.02

1.16 Results of audit

Test check of the records of sales tax, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax and non-tax receipts during the year 2008-09 revealed under assessment, short levy, loss of revenue etc.

amounting to Rs. 295.59 crore in 2,021 cases. During the year, the departments accepted under assessment of Rs. 5.46 crore in 562 cases pointed out in 2008-09 and earlier years and recovered Rs. 2.46 crore in 225 cases.

This report contains 50 paragraphs including two reviews relating to non/short levy of taxes, duties, interest and penalty etc. involving Rs. 218.15 crore. The department/Government accepted audit observations involving Rs. 42.58 crore of which Rs. 28.26 lakh had been recovered upto June 2009. These are discussed in succeeding chapters II to VII.

Chapter II: Taxes on Sales, Trade etc.

2.1 Results of audit

Test check of the records of sales tax/value added tax during the year 2008-09 revealed underassessments of tax and other deficiencies amounting to Rs. 35.02 crore in 295 cases, which fall under the following categories:

(In crore of rupees)

Sr. no.	Category	Number of cases	Amount
1.	Loss of revenue due to excess VAT refund	23	3.65
2.	Non/short levy of sales tax/VAT	165	26.83
3.	Incorrect grant of exemption from tax	7	0.35
4.	Non/short levy of penalty	43	1.88
5.	Other irregularities	57	2.31
Total		295	35.02

During the year 2008-09, the department accepted audit observations involving Rs 2.07 crore in 18 cases and recovered Rs. 38.22 lakh in 29 cases pertaining to the audit findings of previous years.

A few illustrative audit observations involving Rs. 3.75 crore are discussed in the succeeding paragraphs.

2.2 Audit observations

Scrutiny of assessment records of sales tax/value added tax (VAT) revealed several cases of non-observance of provisions of Acts/Rules, non/short levy of tax/penalty/interest, incorrect allowance of exemption/incorrect determination/ classification/turnover and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions on the part of Assessing Authorities (AAs)/Designated Officers (DOs) are pointed out in audit repeatedly, but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that such omissions can be detected and corrective measure taken.

2.3 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, 1948 (CST Act) and Rules provide for:-

- (i) levy of tax at the prescribed rates;*
- (ii) exemption under the Punjab General Sales Tax (Deferment & Exemption), Rules (PGST (D&E) Rules) saved under PVAT Act; and*
- (iii) correct determination of tax/turnover.*

The AAs while finalising the assessment did not observe some of the above provisions of Acts/rules in the cases as mentioned in paragraphs 2.3.1 to 2.3.13 This resulted in non/short levy/ non-realisation of tax/interest/ penalties of Rs. 1.93 crore.

2.3.1 Incorrect levy of concessional rate of tax

Under the CST Act, on inter state sales (ISS) of goods made to the registered dealers and supported by declarations in form C, central sales tax (CST) is leviable at the concessional rate of four *per cent* or at such lower rate as applicable to the sale or purchase of such goods within the State. Tax on goods not covered by such declarations, in the case of declared goods, shall be calculated at twice the rate applicable in the State and in respect of other goods at 10 *per cent* or at the rate applicable to the sale of such goods inside the State whichever is higher.

During test check of assessment records of the Assistant Excise and Taxation Commissioner (AETC) Fatehgarh Sahib, it was noticed between February and May 2008 that while finalising the assessments for the years 2002-03 to 2004-05 of five dealers engaged in the business of electric resistance welded pipes and iron & steel, the AA erroneously assessed tax at the concessional rate of two *per cent* on the ISS of Rs. 27.15 crore as against the sales of Rs. 20.32 crore supported by the prescribed declarations. This resulted in short levy of CST of Rs. 40.96 lakh.

The matter was reported to the department and the Government between September 2008 and January 2009; their replies have not been received (September 2009).

2.3.2 Application of incorrect rates of tax

Under the provisions of the PGST Act and the Rules made thereunder, tax on the sale of transformers, tomato ketchup, *sharbat* and preserved food articles is leviable at the rate of 13.20 *per cent* including additional tax.

During test check of assessment records of three AETCs¹, it was noticed between May and November 2008 that while finalising the assessment for the years 2002-03 to 2004-05 of three dealers engaged in the business of manufacturing and sale of transformers, tomato ketchup, *sharbat* and preserved food articles and enjoying the benefit of exemption (except the dealer of Ludhiana-II) from payment of sales tax under the PGST (D&E) Rules, the AAs levied tax at incorrect rate of four to 10 *per cent* instead of 13.20 *per cent* on the sale value of Rs. 2.84 crore. This resulted in short levy of tax of Rs. 20.32 lakh.

After the cases were pointed out between May and November 2008, the department intimated in January 2009 that AETC Amritsar-I had reopened the case for assessment and finalisation of the proceedings was awaited. The reply in respect of other cases was awaited (September 2009).

The matter was reported to the Government between December 2008 and February 2009; their replies have not been received (September 2009).

2.3.3 Non-levy of purchase tax

Under the provisions of the PGST Act, if a dealer purchases taxable goods from any source without the payment of tax and uses them in the manufacture of tax free goods, he is liable to pay tax on the purchase of such goods. Tax at the rate of four *per cent* was leviable on poly pack films and chemicals used in the packing of milk.

During test check of the assessment records of AETC (Ward 3 and 4) Amritsar-I, it was noticed in February 2008 that while finalising in February 2007 the assessment for the year 2003-04 of a dealer engaged in the business of sale of milk (tax free items), the AA did not levy tax on the purchase of raw material such as poly pack films and chemicals valued Rs. 46.66 lakh used in the packing of milk. This resulted in non-levy of purchase tax of Rs. 2.14 lakh.

After the case was pointed out in February 2008, the department intimated in April 2009 that the case had been reopened for assessment.

The matter was reported to the Government in September 2008; their replies have not been received (September 2009).

2.3.4 Short levy of VAT due to application of incorrect rate of tax

Under the provisions of the PVAT Act, on filing of returns by the dealer, if any tax or interest is found due on the basis of such returns, a notice of demand specifying the sum payable shall be sent to the dealer. However, no intimation under the PVAT Act shall be sent after the expiry of one year from the end of the financial year in which the return is filed.

¹ Amritsar-I, Ludhiana-II and Mansa.

During test check of records of AETC Bathinda, it was noticed in October 2008 that a dealer in his self assessment return/annual return for the year 2005-06 calculated the tax on taxable turnover of desert water cooler and its parts valued Rs. 72.88 lakh at the rate of four *per cent* instead of the correct rate of 12.50 *per cent*. The self assessment return filed by the dealer was accepted by the department and no notice of demand for the differential amount as required under the Act was issued. This resulted in short levy of tax of Rs. 6.20 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

2.3.5 Excess allowance of refund

Under the PVAT Act, tax on capital goods is leviable at the rate of four *per cent*.

During test check of records relating to refund in two AETCs (Fatehgarh Sahib and Ludhiana-I) for the year 2005-06, it was noticed in November and December 2008 that, while allowing the refund to two dealers between October 2005 and November 2006, the DOs calculated the input tax credit at rate of 12.50 *per cent* instead of the correct rate of four *per cent* leviable on capital goods. This mistake resulted in excess refund of Rs. 5.09 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

2.3.6 Incorrect computation of quantum of exemption

Under the PGST (D&E) Rules as saved under the PVAT Act, a taxable person shall be entitled to the input tax credit (ITC) in respect of materials used in the manufacture on taxable goods, purchased by him from a taxable person within the State during the tax period. The quantum of exemption from payment of the tax by an exempted unit shall be computed by adding the amount of refund allowed to the output tax calculated at VAT rates.

During test check of records of AETC, Fatehgarh Sahib for the assessment year 2005-06, it was noticed in November 2008 that a dealer was issued eligibility certificate for the grant of sales tax exemption of Rs. 1.73 crore for seven years with effect from 14 March 2001 and he availed tax exemption of Rs. 1.20 crore between March 2001 and March 2005. The dealer was allowed refund of Rs. 32.17 lakh during the second and fourth quarter of the year 2005-06. The AA while computing the quantum of exemption for the year 2005-06 had taken the output tax liability as Rs. 50.44 lakh instead of Rs. 82.61 lakh without including the refund of Rs. 32.17 lakh. This resulted in excess avilment of exemption of Rs. 29.51 lakh.

After the case was pointed out in November 2008, the department intimated in April 2009 that the case had been reopened for assessment.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

2.3.7 Irregular utilisation of input tax credit

Under the PGST (D&E) Rules as saved under the PVAT Act, an industrial unit availing the benefit of deferment or exemption from payment of tax, shall be entitled to refund of tax, paid or payable by it on the purchases made from a taxable person within the State, for use in manufacturing, processing or packing of taxable goods. No ITC shall be admissible in respect of such purchases. The Excise and Taxation Commissioner (ETC), Patiala had clarified in March 2007 that the exempted units are not allowed to use ITC towards output tax liability of non-exempted goods sold by them.

During test check of records of refunds of DO Ludhiana-II for the years 2006-07 and 2007-08, it was noticed in August 2008 that a dealer engaged in the business of manufacture and sale of cycle parts and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules, was allowed to utilise ITC of Rs. 22.84 lakh towards his output tax liability relating to the sale of non-exempted goods. Failure on the part of the DO resulted in irregular utilisation of ITC to the extent of Rs. 22.84 lakh and short levy of output tax of equal amount.

After the case was pointed out in August 2008, the department intimated in April 2009 that the case had been reopened for assessment. Finalisation of the proceedings was still awaited (September 2009)

The matter was reported to the Government in January 2009; their replies have not been received (September 2009).

2.3.8 Short levy of purchase tax

The goods mentioned in schedule 'C' to the PGST Act are liable to purchase tax in the hands of the last dealer. Cotton of all kinds is included in schedule 'C' and purchase tax is leviable at the rate of four *per cent*.

During test check of the assessment records of AETC Amritsar-II, it was noticed in November 2007 that while finalising between September and November 2006, the assessment for the years 2003-04 to 2004-05 of a dealer engaged in the business of manufacture and sale of surgical cotton and availing the benefit of exemption from payment of tax under the PGST (D&E) Rules, the AA did not levy tax on the purchase of cotton valued at Rs. 2.92 crore used in the manufacture of surgical cotton (general goods) without recording any reasons. This resulted in non-levy of purchase tax of Rs. 11.70 lakh.

After the case was pointed out in November 2007, the department intimated in April 2009 that AETC Amritsar-II had created the additional demand and debited to the available exemption of the unit.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

2.3.9 Excess allowance of refund

Under the PVAT Act, no tax paid on purchase of goods shall be refunded, if the goods so purchased are used in the manufacturing, processing or packing of tax-free goods. Further, under the Punjab Value Added Tax Rules, 2005

(PVAT Rules), where a taxable person has used the goods purchased partly for manufacture and sale of tax-free goods and partly taxable goods, ITC shall be apportioned to the goods purchased and consumed in the manufacture of tax-free goods.

During test check of refund cases of AETC, Ludhiana-III, it was noticed in July 2008 that a dealer was engaged in the business of manufacture² and sale of taxable as well as tax-free goods and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules as saved under PVAT Act. The AA allowed refund of Rs. 18.44 lakh in May 2007 against admissible of Rs. 8.52 lakh on material consumed by the dealer in manufacturing of tax free goods. This resulted in excess allowance of refund of Rs. 9.92 lakh.

The matter was reported to the department and the Government in December 2008; their replies have not been received (September 2009).

2.3.10 Inadmissible availment of exemption from payment of tax

Under the PGST (D&E) Rules as saved under the PVAT Act, exemption from payment of tax is admissible to a unit for manufacturing and sale of products mentioned in the eligibility certificate.

During test check of records of the AETC Ludhiana-II, it was noticed in September 2008 that while finalising the refund in July 2007 for the year 2005-06 of a dealer engaged in the manufacture and sale of hosiery and enjoying exemption from payment of tax under the PVAT (D&E) Rules, the AA allowed exemption from payment of tax for the sale of yarn, wastage and job work valued Rs. 1.87 crore. As yarn, wastage and job work were not included in the eligibility certificate, exemption from payment of tax under the PVAT (D&E) Rules was not admissible and the dealer was liable to pay tax of Rs. 5.53 lakh.

After the case was pointed out in September 2008, the department intimated in January 2009 that the case had been reopened for assessment.

The matter was brought to the notice of the Government in January 2009; their replies have not been received (September 2009).

2.3.11 Short levy of additional tax

Under the PGST Act and the Rules made thereunder, additional tax at the rate of 10 *per cent* of the tax assessed is leviable, in addition to the tax.

During test check of the assessment records of the AETC (Inspection), Ludhiana-I, it was noticed in December 2007 that while finalising the assessment for the years 2001-02 to 2004-05 of a dealer engaged in the business of manufacture and sale of SW pipes and enjoying the benefit of exemption from payment of tax under the PGST (D&E) Rules, the AA assessed tax of Rs. 54.12 lakh on the turnover of Rs. 7.22 crore but omitted to levy the additional tax of Rs. 5.41 lakh.

After the cases were pointed out in December 2007, the department intimated in April 2009 that additional demand of Rs. 3.39 lakh for the years 2002-03 to

² mosquito coil, toilet cleaner, corrugated carton and duplex inner.

2004-05 had been raised and adjusted against exemption limit of the unit. The reply in respect of the assessment years 2001-02 and 2002-03 was awaited (September 2009).

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

2.3.12 Incorrect determination of gross turnover

Under the PVAT Act, gross turnover includes the aggregate of the amount of sales and/or purchases made by any person during the given period, including any sum, charged on account of freight, storage, demurrage, insurance and for any thing done by the person in respect of the goods at the time of or before the delivery thereof. Further, return as defined in the PVAT Act means a true and correct account of business pertaining to the return period in the prescribed form.

During test check of records of DO Ludhiana-II, it was noticed in September 2008 that gross turnover of Rs. 63.99 crore shown in the returns filed by two dealers for the year 2005-06 did not include the sale of assets valued Rs. 4.76 crore shown in their accounts. The self assessment returns filed by the dealers were accepted by the department and no notice of demand against non-inclusion of the sale value of assets in the taxable turnover as required under the Act was issued. This resulted in non-levy of tax of Rs. 19.03 lakh.

After the cases were pointed out in September 2008, the department intimated in April 2009 that the cases had been reopened for assessment. Finalisation of the proceedings was still awaited (September 2009).

The matter was reported to the Government in January 2009; their replies have not been received (September 2009).

2.3.13 Short computation of turnover

Turnover as defined in the PGST Act includes the aggregate of sales and purchases actually made by any dealer during a given period.

During test check of records of AETC Jalandhar-II (ward 11), it was noticed in March 2008 that while finalising the assessment for the year 2004-05 of a dealer engaged in the business of building contracts, the AA computed the gross turnover as Rs. 3.27 crore on the basis of returns filed by the dealer instead of Rs. 4.90 crore shown in the trading account. This resulted in short levy of tax of Rs. 14.35 lakh.

The matter was reported to the department and the Government in October 2008; their replies have not been received (September 2009).

2.4 Evasion of tax due to misuse of prescribed declarations

The PGST/PVAT/CST Acts and Rules provide for:-

- (i) *concessional rate of tax on Inter State Sales/sale to Government Departments and Canteen Stores Department on production of prescribed declarations/certificates; and*
- (ii) *allowing deductions against declarations.*

The AAs while finalising the assessment did not observe the requirement of production of prescribed declarations/certificates in some cases as mentioned in paragraphs 2.4.1 to 2.4.6. This resulted in non/short levy/non-realisation of tax Rs. 61.16 lakh.

2.4.1 Short levy of tax

Under the provisions of the CST Act, a dealer who in the course of inter state trade or commerce sells any goods to the Government departments, is liable to pay tax at the concessional rate of four *per cent* if the sales are supported by certificates in form D.

During test check of records of AETC, Ludhiana-III, it was noticed in August 2008 that a dealer made ISS of paper valuing Rs. 6.27 crore to Government departments against declarations during the year 2005-06. The dealer in his self assessment assessed the tax at the rate of one *per cent* instead of four *per cent* considering the sales made to Government departments as ISS. This resulted in short levy of CST of Rs.18.81 lakh. The department did not issue notice of demand within the prescribed period of one year as required under the PVAT Act.

The matter was reported to the department and the Government in October 2008; their replies have not been received (September 2009).

2.4.2 Non-levy of purchase tax

Under the PGST Act, if a dealer purchases taxable goods from any source without payment of tax and sends them outside the State otherwise than by way of sale or uses them in the manufacture of tax-free goods, he is liable to pay tax on the purchase of such goods.

During test check of assessment records of the AETC Amritsar-II, it was noticed in August 2008 that while finalising the assessment of a dealer for the year 2004-05 in July 2007, a deduction of Rs. 2.42 crore was allowed to the dealer on account of consignment sale of paddy outside the State of Punjab against F-forms. As the dealer had purchased the goods from commission agents without payment of tax and transferred the goods outside the State, he was liable to pay tax on consignment sale under the provisions of the Act *ibid*. This was not ensured and it resulted in non-levy of purchase tax of Rs. 9.67 lakh.

After the case was pointed out in August 2008, department stated that suitable reply would follow after perusal of records. Final reply was still awaited (September 2009).

The matter was reported to the department and the Government in December 2008; their replies have not been received (September 2009).

2.4.3 Allowance of incorrect deduction

Under the PGST Act and Rules made thereunder, a registered dealer may deduct from his gross turnover the sale of goods made to the canteen stores department subject to furnishing of the prescribed certificates duly signed by the authorised officers.

During test check of records of AETC Jalandhar-I, it was noticed in August 2006 that while finalising in February 2006 the assessment for the year 2004-05 of a dealer engaged in the business of resale of two wheelers, the AA incorrectly allowed deduction of Rs. 7.64 crore from the gross turnover, though the certificates were produced for Rs. 7.47 crore only. The incorrect allowance of deduction resulted in under assessment of tax amounting to Rs. 2.21 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

2.4.4 Non-levy of tax at first stage of sale

Under the provisions of the PGST Act and the Rules framed thereunder, tax is leviable at the first stage of sale of paper, packing material, thermo mechanically treated (TMT) bars and auto parts.

During test check of the assessment records of three AETCs³ between November 2007 and September 2008, it was noticed that while finalising between August 2006 and September 2007, the assessments of four dealers for the years 2001-02 to 2004-05, the AAs erroneously allowed deduction of Rs. 2.27 crore towards sale of paper, packing material, TMT bars and auto parts sold to the registered dealers in the state against declarations. Since these goods were taxable at the first stage of sale, the deductions allowed against the declarations were not correct. This resulted in non-levy of tax of Rs. 14.51 lakh.

After the cases were pointed out between November 2007 and September 2008, the department intimated in April 2009 that AETC Ludhiana-II had reopened the assessment of one dealer. Reply in respect of the other dealers was awaited (September 2009).

The matter was reported to the department and the Government between January 2008 and February 2009; their replies have not been received (September 2009).

2.4.5 Deduction without declaration

Under the PGST Act and Rules framed thereunder, the dealer may deduct from the gross turnover the sale value of goods which are taxable at the first stage of sale under sub-section (I-A) and sub-section (3) of section 5 of the Act and which have been purchased by a dealer for sale in the course of inter-State trade or commerce. Rules further require that the dealer have to append to his return in respect of such sale, "C" part of the declaration prescribed in the form ST-XXII-C, duly authenticated and numbered by the appropriate AA and signed by the purchasing dealer.

During test check of assessment records of the AETC, Fatehgarh Sahib, it was noticed in May 2008 that while finalising in April 2007 the assessment for the year 2003-04 of a dealer engaged in the business of Iron & Steel, the AA allowed deduction of Rs. 2.57 crore without ensuring production of the

³ Fatehgarh Sahib, Jalandhar-I and Ludhiana-II.

prescribed declarations. This resulted in irregular allowance of deduction and under assessment of tax of Rs. 10.28 lakh.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

2.4.6 Incorrect allowance of deductions to other registered dealers

As per Government notification issued in July 1990, the goods manufactured by the unit availing the benefit of deferment or exemption from payment of sales tax are taxable at the first stage of sale in the State and the units are not entitled to claim deductions from their turnover on account of sale to other registered dealers against prescribed declarations.

During test check of assessment records of the AETC Sangrur (Pendancy), it was noticed in March 2008 that the AA, while finalising in December 2006, the assessments for the year 2001-02 and 2002-03 of a dealer engaged in the manufacture and sale of copper/aluminum wire, allowed deductions of Rs. 64.54 lakh from the gross turnover on account of sale of goods to other registered dealers in the State against the prescribed declarations. As the dealer was a manufacturer and enjoying the benefit of exemption from payment of sales tax and had sold the goods for the first time in the State, he was liable to be taxed for such sales. The incorrect allowance of deductions resulted in under assessment of tax of Rs. 5.68 lakh.

The matter was reported to the department and the Government in August 2008; their replies have not been received (September 2009).

2.5 Incorrect determination of turnover

The PVAT Act/Rules provide for:-

- (i) disclosure of actual turnover by the dealer in the returns;*
- (ii) correct determination of tax payable in the self assessment returns; and*
- (iii) correct adjustment of input tax credit.*

The dealers did not disclose the actual turnover/made correct adjustment of input tax credit and the Designated Officers also did not observe some of the above provisions in cases as mentioned in the paragraphs 2.5.1 to 2.5.4 which resulted in short levy/underassessment of tax of Rs. 1.20 crore.

2.5.1 Incorrect disclosure of sales turnover

As per the PVAT Act, the amount of duties levied or leviable on the goods under the Central Excise and Salt Act, 1944, shall be deemed to be part of the sale price of goods, whether such duties are paid or payable by or on behalf of the seller or the purchaser or any other person. The PVAT Act further provides that on filing of returns by the dealer, if any tax or interest is found due on the basis of such returns, a notice of demand specifying the sum payable shall be sent to the dealer. However, no intimation under the PVAT Act shall be sent after the expiry of one year from the end of the financial year in which the return is filed.

During test check of records of AETC Ludhiana-I, it was noticed in November 2008 that a dealer engaged in the manufacturing of iron and steel products, in his self assessment return/annual return for the year 2005-06 did not include the central excise duty of Rs. 15.18 crore as part of sales turnover, though the same was shown in the profit and loss account filed with the annual return. The self assessment return filed by the dealer was accepted by the department and no notice of demand against non-inclusion of the excise duties in the sales turnover as required under the Act was issued to the dealer. This resulted in under assessment of tax of Rs. 60.72 lakh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

2.5.2 Excess availment of input tax credit on consignment sale

Under the PVAT Act, ITC shall be allowed only to the extent by which the amount of tax paid in the state exceeds four *per cent* on purchase of goods used in the manufacturing or in packing of taxable goods sent outside the state other than by way of sale in the course of inter state trade or commerce or in the course of export out of the territory of India.

2.5.2.1 During test check of VAT refund records of two AETCs⁴, it was noticed in November 2008 that the DOs had accepted the self assessment returns filed by three dealers for the years 2005-06 and 2006-07 who had retained ITC of Rs. 1.13 crore instead of Rs. 1.43 crore on branch transfer of goods (Rs. 85.96 crore) which resulted in short retention of ITC of Rs. 30 lakh and non-levy of tax of equal amount.

2.5.2.2 During test check of the records of two AETCs⁵, it was noticed between October and December 2008 that two dealers in their self assessment returns filed during the year 2005-06, retained ITC of Rs. 4 lakh against the due amount of Rs. 18 lakh on account of branch transfer of goods (Rs. 22.60 crore) which resulted in short retention of ITC of Rs. 14 lakh.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

2.5.3 Incorrect disclosure of gross turnover

Under the provisions of the PVAT Act, sale price means the amount of consideration received or receivable by a person for any sale made including any sum charged on account of freight, storage, demurrage, insurance and any sum charged for any thing done by the person in respect of the goods at the time of or before the delivery thereof.

During test check of records of a dealer in AETC, Ropar for the year 2005-06, it was noticed in December 2008 that while filing the self assessment return/annual return, the dealer had not included receipts of Rs. 60.47 lakh being the differential price of sale of molasses as taxable turnover, though the same was shown in the balance sheet filed with the annual return. This short computation of taxable turnover led to short levy of tax of Rs. 12.12 lakh.

⁴ Ludhiana-I (two dealers) and Fatehgarh Sahib (one dealer).

⁵ Bathinda (one dealer) and Moga (one dealer).

After the case was pointed out in December 2008, the department intimated in June 2009 that AETC Ropar had reassessed the case and demand of Rs. 12.12 lakh had been raised.

The matter was reported to the Government in February 2009; their replies have not been received (September 2009).

2.5.4 Incorrect adjustment of input tax credit

Under the PGST (D&E) Rules as saved under the PVAT Act, a person purchasing goods from an exempted unit, shall be entitled to avail ITC at the rate of four *per cent* of the value of taxable goods, provided such goods are used in manufacturing, processing or packing of the taxable goods or sold to a taxable person or sold in the course of inter-State trade or commerce.

During test check of records of DO Faridkot for the year 2005-06, it was noticed in October 2008 that a dealer engaged in the business of sale of liquor, while filing his annual VAT return for the year 2005-06 adjusted the ITC of Rs. 3.93 lakh calculated at the rate of 22 *per cent* instead of four *per cent* on the goods valued at Rs. 17.88 lakh purchased from an exempted unit. This resulted in short deposit of output tax of Rs. 3.22 lakh.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

Chapter III: Taxes on Vehicles

3.1 Results of audit

Test check of the records relating to the Motor Vehicles Department during the year 2008-09, revealed irregularities amounting to Rs. 12.40 crore in 1,276 cases, which fall under the following categories:

(In crore of rupees)

Sr. no.	Category	Number of cases	Amount
1.	Non/short recovery of special road tax	125	4.44
2.	Non/short recovery of token tax	630	3.00
3.	Other irregularities	521	4.96
Total		1,276	12.40

During the year 2008-09, the department accepted audit observations involving Rs. 2.25 crore in 514 cases and recovered Rs. 1.71 crore in 107 cases pertaining to the audit findings of previous years.

A few illustrative audit observations involving Rs. 6.53 crore are mentioned in the succeeding paragraphs.

3.2 Audit observations

Scrutiny of records in the offices of registering authorities in the Motor Vehicles Department relating to revenue received from taxes on vehicles, revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty/interest/permit fee as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only the irregularities persist; these remain undetected till an audit is conducted. The Government needs to improve the internal control system to avoid occurrence of such cases in future.

3.3 Non-observance of the provisions of Acts/Rules

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

- (i) payment of motor vehicles tax/special road tax by the owner of vehicles at the prescribed rates;*
- (ii) token tax to be paid in advance and within the prescribed period;*
- (iii) payment of composite fee by the owner of vehicles under National Permit Scheme; and*
- (iv) levy of interest and penalty.*

Non-compliance of some of the provisions of the Acts/Rules by the registering authorities (Motor Vehicles) at the time of registration of vehicles/transfer of permits in cases are mentioned in the paragraphs 3.3.1 to 3.3.6. This resulted in non/short realisation of Government revenue of Rs. 6.53 crore.

3.3.1 Non/short payment of special road tax/motor vehicle tax

Under the Punjab Motor Vehicles Taxation Act, 1924 (PMVT Act), as amended from time to time, there shall be levied and paid to the Government, a special road tax (SRT) on stage carriages at the rate per seat, per kilometre/per day as may be specified by the Government from time to time. Further by a notification issued in November 2007, the Government levied Motor Vehicle Tax (MVT) per kilometer per day per vehicle at the specified rates in place of SRT.

During test check of the records of two Regional Transport Authorities (RTAs) (Ferozepur and Jalandhar) and eight District Transport Officers¹ (DTOs) for the year 2006-07 and 2007-08, it was noticed between February and December 2008 that Alwar depot of Rajasthan State Road Transport Corporation, Jammu and Kashmir State Road Transport Corporation, Muktsar depot of Punjab Roadways and 57 private transport companies paid SRT/MVT amounting to Rs. 3.83 crore against the recoverable amount of Rs. 6.28 crore worked out on the basis of entire mileage to be covered during the period from April 2006 to March 2008. The department neither demanded the tax due nor took any action as required under the PMVT Act. This resulted in non/short

¹ Amritsar, Bathinda, Gurdaspur, Jalandhar, Moga, Muktsar, Patiala and Ropar.

recovery of SRT/MVT of Rs. 2.84 crore including penalty and interest of Rs. 32.54 lakh calculated upto March 2008.

After the cases were pointed out, RTA Ferozepur and five DTOs² stated that recovery would be made. Replies from the other RTA/DTOs were awaited (September 2009).

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

3.3.2 Non-realisation of special road tax and token tax from all India tourist buses

As per the PMVT Act, SRT and token tax shall be levied on tourist buses at the rates prescribed by Government from time to time, which is to be collected in advance on monthly/quarterly/yearly basis. Failure to pay the tax within the prescribed period attracts penalty and interest.

During test check of the records of the State Transport Commissioner, Punjab (STC), it was noticed in August 2008 that SRT amounting to Rs. 59.13 lakh and token tax of Rs. 4.48 lakh in respect of tourist buses was neither demanded by the department nor paid by the vehicle owners during the year 2007-08. This resulted in non-realisation of tax amounting to Rs. 73.99 lakh including interest of Rs. 6.60 lakh (calculated upto March 2008) and minimum penalty of Rs. 3.78 lakh.

After the case was pointed out in August 2008, the STC intimated in June 2009 that notices for recovery had been issued to the owners of the tourist buses.

The matter was brought to the notice of department and referred to the Government in February 2009; their replies were awaited (September 2009).

3.3.3 Application of incorrect rates of motor vehicle tax

As per the PMVT Act as amended from time to time, there shall be levied and paid to Government MVT on transport vehicles at the rates prescribed by Government from time to time. Government levied tax on the buses registered in other states plying as stage carriages in Punjab the permits of which are countersigned under reciprocal agreement at the rate of Rs. 3.70 and permits not countersigned under reciprocal agreement at the rate of Rs. 5 per km/day/bus with effect from 22 November 2007.

During test check of the records of two RTAs (Patiala and Ferozepur), it was noticed between April and August 2008 that Chandigarh Transport Undertaking (CTU) and Rajasthan State Road Transport Corporation (Jaipur depot) paid tax at pre-revised rate instead of the revised rate for the period from December 2007 to March 2008. This resulted in short levy of tax of Rs. 69.30 lakh.

After the cases were pointed out, the RTA Patiala stated that notification was issued on 04 June 2008 and the matter would be looked into and the RTA Ferozepur stated that the recovery would be made. The reply of the

² Bathinda, Gurdaspur, Jalandhar, Moga and Ropar.

RTA Patiala is not based on facts as the notification was issued on 22 November 2007.

The matter was brought to the notice of the department and referred to the Government between February and March 2009; their replies were awaited (September 2009).

3.3.4 Non-recovery of token tax/interest

Under the provisions of the PMVT Act, token tax is leviable on stage carriages, mini buses, buses of educational institutions and goods carriers at the prescribed rates and is recoverable in advance in equal quarterly instalments. Failure to pay tax by the due dates attracts interest and penalty at the prescribed rates. Where tax due in respect of any vehicle has not been paid, the department may issue notices, impound, seize and detain such vehicles until the tax due is paid.

During test check of the records of two DTOs (Bathinda and Moga), for the year 2006-07 and 2007-08, it was noticed between February and August 2008 that 20 transport companies had not paid the token tax amounting to Rs. 8.53 lakh in respect of 28 buses. The department neither demanded the tax due nor took any action as required under the PMVT Act. This resulted in non-recovery of token tax amounting to Rs. 11.65 lakh including penalty of Rs. 1 lakh and interest of Rs. 2.12 lakh (calculated upto March 2008).

After the cases were pointed out in February 2008, the DTO Bathinda stated that recovery would be made, while the DTO Moga stated in August 2008 that action would be taken to recover the amount. A report on recovery has not been received (September 2009).

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

3.3.5 Short realisation of composite fee

Under the National Permit Scheme (NPS), vehicles registered in one state are authorised to ply in other states on payment of the prescribed composite fee in lump sum. The composite fee is initially received from the owner of the vehicle in the form of a crossed bank draft by the state in which the vehicle is registered and transmitted to the state in which the vehicle is authorised to ply.

During test check of the records of the STC for the year 2007-08, it was noticed in August 2008 that 302 goods carriers registered in other states³ and authorised to ply in Punjab under the NPS, paid composite fee at a rate lower than the rates prescribed. Failure on the part of the department to take up the matter with the concerned states, resulted in short realisation of composite fee of Rs. 6.65 lakh.

After the case was pointed out in August 2008, the STC stated that the matter had already been taken up with the states concerned for recovery. However, the veracity of the contention could not be checked in the absence of any documentary evidence in support of this contention.

³ Haryana, Himachal Pradesh, Jammu and Kashmir, Madhya Pradesh, Rajasthan, Tamil Nadu and Uttar Pradesh.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

3.3.6 Non-levy of interest and penalty

Under the PMVT Act as amended from June 1993, if the owner of a vehicle fails to pay SRT within the prescribed period, he is liable to pay penalty not exceeding Rs. 5,000 but not less than Rs. 1,000. In addition, the owner is also 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 such vehicles until the tax due is paid.

During test check of the records of two DTOs (Patiala and Muktsar), it was noticed between April and November 2008 that all the depots of Pepsu Road Transport Corporation (PRTC) and Muktsar depot of Punjab Roadways paid SRT amounting to Rs. 24.67 crore after the specified date pertaining to different periods falling between April 2007 and March 2008. The delay ranged between one and 10 months. Neither any penalty was levied nor interest was charged for the delayed payment of tax. This resulted in non-levy of interest of Rs. 2.07 crore including minimum penalty.

After the case was pointed out in April 2008, DTO Patiala stated that non-reimbursement of dues by various Government departments was the reason for delay in payment of SRT by PRTC whereas DTO Muktsar stated in November 2008 that the matter for the recovery would be taken up with the Punjab Roadways. The fact remains that the SRT was to be paid in advance as per provisions of the PMVT Act.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

Chapter IV: State Excise

4.1 Results of audit

Test check of the records of the State Excise Department during the year 2008-09, revealed irregularities amounting to Rs. 13.28 crore in 22 cases, which fall under the following categories:

(In crore of rupees)

Sr. no.	Category	Number of cases	Amount
1.	Loss of excise duty due to sub normal yield of spirit from molasses	07	10.93
2.	Outstanding recovery of excise duty	07	2.10
3.	Others irregularities	08	0.25
Total		22	13.28

During the year 2008-09, the department accepted audit observations involving Rs. 27.12 lakh in one case and recovered Rs. 43,000 in one case pertaining to the audit findings of previous years.

A few illustrative audit observations involving Rs. 10.70 crore are discussed in the succeeding paragraphs.

4.2 Audit observations

Scrutiny of records of State Excise Department revealed cases of non-observance of the provisions of the Rules resulting in short yield of spirit and non-recovery of cost of the staff as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit repeatedly, but not only the irregularities persist; these remain undetected till an audit is conducted. The Government needs to improve the internal control system to avoid occurrence of such cases in future.

4.3 Non-observance of provisions of the Acts/Rules

The Punjab Distillery Rules, 1932 provide for:-

- (i) yield of spirit at prescribed norms; and*
- (ii) recovery of cost of supervisory excise staff posted at the distillery.*

The department did not observe some of the above provisions in cases as mentioned in the paragraphs 4.3.1 and 4.3.2 which resulted in non-realisation of excise duty and cost of establishment charges of Rs. 10.70 crore.

4.3.1 Sub normal yield of spirit from molasses

The Punjab Distillery Rules 1932, (Distillery Rules) envisage that one quintal of molasses should yield 36.61 proof litres of spirit.

During test check of the records of four distilleries¹, it was noticed between September 2008 and January 2009 that 16.32 crore proof litres of spirit was produced during the year 2006-07 and 2007-08 from 46.52 lakh quintals of molasses as against the envisaged yield of 17.03 crore proof litres of spirit. Had the prescribed norms for yield of spirit been achieved, the Government would have earned excise duty of Rs. 10.59 crore on the additional yield of 71.14 lakh proof litres of spirit.

After the cases were pointed out, the Excise and Taxation Officer (ETO) Patiala stated that matter would be taken up with higher authorities. The ETO, Hamira stated that with advancement of technology, sugar mills were extracting maximum sugar from sugarcane and the sugar contents in the molasses were reduced to a minimum. However, the fact remains that the Government had prescribed the norms of yield of spirit and that should be observed.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

4.3.2 Non-realisation of cost of establishment charges

Under the Distillery Rules, the licensee shall pay into the Government treasury such sums as may be demanded by the Commissioner towards the salaries of

¹ M/s AB Sugar Ltd. Randawa-Dasuya (Hoshiarpur), M/s Chandigarh Distillers & Bottlers Ltd. Banur (Patiala), M/s Hamira Distillery Hamira (Kapurthala) and M/s Patiala Distillers and Manufacturers Ltd. Main (Patiala).

the Government excise establishment posted in the distillery for the purpose of ensuring due observance of these rules and watch and ward.

During test check of the records of two distilleries², it was noticed between September 2008 and January 2009 that the demand on account of cost of the establishment charges amounting to Rs. 10.57 lakh for the year 2007-08 was not raised, which resulted in non-realisation of cost of establishment charges of Rs. 10.57 lakh.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

² M/s Chandigarh Distillers and Bottlers, Banur (Patiala) and M/s United Breweries Limited, Jamalpur (Ludhiana).

Chapter V: Stamp Duty and Registration Fees

5.1 Results of audit

Test check of the records of stamp duty and registration fees during the year 2008-09, revealed irregularities amounting to Rs. 42.32 crore in 316 cases which fall under the following categories:

(In crore of rupees)

Sr. no.	Category	Number of cases	Amount
1.	Short levy of stamp duty and registration fees on lease deeds	12	0.10
2.	Non/short levy of stamp duty and registration fees	204	8.51
3.	Misclassification of instruments	33	1.85
4.	Other irregularities	67	31.86
Total		316	42.32

During the year 2008-09, the department accepted the audit observations involving Rs. 31.13 lakh in 24 cases and recovered Rs. 36.97 lakh in 88 cases pertaining to the audit findings of the earlier years.

A few illustrative audit observations involving Rs.34.83 crore are mentioned in the succeeding paragraphs.

5.2 Audit observations

Scrutiny of records of various registration offices revealed several cases of non-compliance of the provisions of the Indian Stamp Act, 1899 (IS Act) and the Registration Act, 1908 and Government notifications/instructions and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. Such omissions are pointed out in audit each year, but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that occurrence of such cases can be avoided, detected and corrected.

5.3 Non-compliance of provisions of the Acts/Rules

The provisions of the Indian Stamp Act, 1899 and the Registration Act, 1908 require:-

- (i) levy of registration fee;*
- (ii) levy of stamp duty at the prescribed rates; and*
- (iii) levy of stamp duty and registration fee on minimum market value of land/properties.*

The registering authorities did not observe some of the above provisions in some cases at the time of registration of documents as mentioned in the paragraphs 5.3.1 to 5.3.4. This resulted in short levy/evasion of stamp duty and registration fee of Rs. 31.90 crore.

5.3.1 Incorrect remission of the registration fee

The Registration Act 1908 (Act) empowers the State Government to fix the fee for the registration of various documents and other instruments enumerated in clauses (a) to (i) of section 78. There is no provision in the Act empowering the State Government to remit the fees payable in respect of any matter enumerated in clauses (a) to (i) of the Act. The registration fee was leviable at the prescribed rates subject to a minimum of Rs. 50 and maximum of Rs. 10,000.

The State Government issued notifications for remission of the registration fee leviable on registration of the documents for transfer of land in favour of charitable institutions in February 1981 and for securing loans for specified purposes in June 2001 under section 78 of the Act.

The information collected from seven Collectors¹ and three Sub Registrars² (SRs) between July 2007 and June 2008 revealed that 64,187 deeds³ of mortgage (without possession of the property) were registered for securing the loans availed by the farmers from the banks and execution of deeds for transfer of land in favour of charitable institutions during the years 2004-05 to 2006-07. But no registration fee was charged under the cover of the aforesaid

¹ Faridkot, Fatehgarh sahib, Jalandhar, Kapurthala, Ludhiana, Mansa and Mohali.

² Pathankot, Patran and Patti.

³ Does not include the number of deeds executed in Kapurthala, Jalandhar and Ludhiana districts.

notifications. Since these notifications issued were not in conformity with the provisions of the Act, the department instead of bringing out these facts to the notice of the Government, allowed remission of registration fee of Rs. 30.09 crore.

The Government to whom the case was pointed out in February 2008, intimated in January 2009 that Section 21 of the General Clauses Act, 1897 (GC Act) empowers the State Government to add, amend, vary or rescind the table of fees so prepared. However, it was noticed that the Government issued orders for remittance of the fee under section 78 of the Act, which did not empower the State Government to remit or exempt or reduce the fee and there was no explicit provision/clause in the GC Act empowering the Government to remit the fees payable. Some of the states⁴ have already amended the Act by inserting a provision under section 78 which empowers the Government to remit the fees payable in respect of any matter enumerated in clauses (a) to (i) under section 78 either generally or for any particular class of persons.

5.3.2 Short levy of stamp duty and registration fee

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.

During test check of the records of 17 SRs/Joint Sub Registrars⁵ (JSRs), it was noticed between November 2007 and November 2008 that in respect of 28 conveyance deeds registered during 2005-06 to 2007-08 for the sale of residential/ agricultural/ commercial properties, sheds and built up houses etc., stamp duty was charged on the consideration of Rs. 7.40 crore set forth in the instruments instead of Rs. 25.53 crore being the value of land determinable on the basis of price fixed by the respective Collectors. This resulted in short levy of stamp duty and registration fee of Rs. 1.72 crore.

The matter was reported to the department and the Government between August 2008 and February 2009; their replies have not been received (September 2009).

5.3.3 Non-levy of additional stamp duty

By a notification issued in February 2005, the Government levied additional stamp duty at the rate of three *per cent* under the IS Act on an instrument, if such an instrument is executed in the area falling within the jurisdiction of the municipality and the municipal corporation or within five kilometres of the outer limit of the municipality and the municipal corporation as the case may be or the area as may be specified by the collector.

⁴ Goa, Kerala, Pondicherry, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

⁵ Abohar, Adampur, Amritsar-II, Batala, Bhawanigarh, Dasuya, Fatehgarh Sahib, Hoshiarpur, Jalandhar I and II, Kapurthala, Kotkapura, Ludhiana (West), Mahilpur, Malerkotla, Patiala and Rajpura.

During test check of the records of two SRs⁶ for the years 2005-06 to 2007-08, it was noticed between December 2006 and August 2008 that four instruments were executed between April 2005 and May 2007 in the area falling within five kilometres of the outer limit of the municipal corporations and municipalities for a total consideration of Rs. 2.34 crore without levy of the additional stamp duty. This resulted in non-levy of additional stamp duty of Rs. 5.58 lakh.

After the cases were pointed out in December 2006, the SR Faridkot stated that recovery would be made. No reply was furnished by the SR Ludhiana (West).

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

5.3.4 Short levy of stamp duty on lease deed

Under the provisions of IS Act, stamp duty at the prescribed rate is chargeable on an instrument of lease on the basis of the periods of lease and the amount of the average annual rent reserved. The IS Act further provides that where the lease is granted for a fine or premium or for the money advanced in addition to the rent reserved, duty is to be charged on the value of such fine or premium or money advanced as set forth in the lease deed.

During test check of the records of SR Patiala for the year 2007-08, it was noticed in May 2008 that an instrument of lease was registered in August 2007 for Rs. 90 lakh of premium/money advanced. The stamp duty on the rent reserved had correctly been levied. However, stamp duty on the premium/money advanced of Rs. 90 lakh was not levied. This resulted in short levy of stamp duty of Rs. 2.70 lakh.

After the case was pointed out in May 2008, the SR stated that the matter would be looked into and recovery would be made.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

5.4 Non-compliance of Government notifications

The Government notifications provides for exemption/remission from the levy of stamp duty and registration fee to:-

- (i) charitable institution; and*
- (ii) legal heirs*

Non-compliance of some of the instructions contained in the notifications in some cases as mentioned in paragraphs 5.4.1 and 5.4.2 resulted in incorrect exemption/remission of stamp duty and registration fee amounting to Rs. 32.80 lakh.

⁶ Faridkot and Ludhiana (West).

5.4.1 Incorrect grant of exemption to charitable institutions

By notifications issued in February 1981, the Government exempted from the levy of stamp duty and registration fee on the instruments of transfer of land by sale or gift executed in favour of a charitable institution established for charitable purposes within the meaning of the Charitable Endowments Act, 1890 (Central Act of 1890) for the purpose of construction of roads or buildings of schools, colleges, hospitals and dispensaries on such land.

During test check of the records of six SRs/JSR⁷, it was noticed between December 2007 and December 2008 that stamp duty of Rs. 28.60 lakh including registration fee was not levied on eight conveyance deeds of land valuing Rs. 4.42 crore which were executed between December 2006 and January 2008 in favour of the institutions. These institutions were not charitable institutions within the meaning of the Charitable Endowments Act, 1890. This resulted in incorrect grant of exemption of Rs. 28.60 lakh.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

5.4.2 Incorrect remission of stamp duty and registration fee

By notifications issued in December 2001 and November 2006, the State Government remitted the stamp duty chargeable under the IS Act on the instruments executed for the transaction of transfer during life time of an owner of agricultural land and rural residential property to his heirs.

During test check of records of two SRs⁸, it was noticed between November 2006 and July 2008 that two deeds were executed in favour of grandson of brother transferring rural land and sons transferring urban land without levy of stamp duty and registration fee. The remission of stamp duty on transfer of rural land in favour of grandson of brother and transfer of the urban property was not admissible. This had resulted in irregular remission of stamp duty of Rs. 4.20 lakh including registration fee of Rs. 10,000.

After the cases were pointed out in July 2008, the SR Kharar stated that recovery would be made after verification of records. No reply was furnished by the SR Gidderbaha.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

5.5 Non-execution of conveyance deeds of plots/flats

Non-observance of terms and conditions of allotment by the allottee resulted in non-realisation of Government revenue of Rs. 2.60 crore.

Under the provisions of Registration Act, all instruments relating to sale or lease of immovable property for any term of one year or more are required to be registered. Freehold commercial/residential plots and built up houses/flats were allotted by Punjab Urban Development Authority (PUDA) through allotments/auction. As per the terms and conditions of allotment, payment

⁷ Amritsar, Dera Bassi, Gurdaspur, Goraya, Mansa and Phillaur.

⁸ Gidderbaha and Kharar.

was to be made on lumpsum basis or in instalments as the case may be. The owner had to execute a conveyance deed in the prescribed form in such manner as may be directed by the Estate Officer, PUDA within three months from the date of final payment.

Information collected from PUDA, Mohali in April 2008 revealed that 205 no due certificates were issued in favour of the allottees of residential/commercial plots and built up houses/flats by PUDA between April 2004 and March 2007 after full and final payment had been made by them. However, conveyance deeds in these cases for a value of Rs. 28.94 crore had not been got executed/registered. This has resulted in non-realisation of stamp duty of Rs. 2.60 crore.

After the cases were pointed out, the Estate Officer, PUDA (now Greater Mohali Area Development Authority-GMADA) intimated in August 2008 that allottees were directed through public notices published in various news papers to get the required conveyance deeds executed. However, the final position of the execution of conveyance deeds was awaited (September 2009).

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

Chapter VI: Other Tax Receipts

6.1 Results of audit

Test check of the records of land revenue, electricity duty and entertainment tax/duty during the year 2008-09, revealed short/non-recovery etc. of dues amounting to Rs. 47.62 crore in 103 cases, which broadly fall under the following categories:

(In crore of rupees)			
Sr. no.	Category	Number of cases	Amount
A: Land revenue			
1.	Internal control in the land revenue department for recovery of arrears of land revenue (A review)	1	1.04
2.	Non/short recovery of <i>chowkidara</i> ¹ tax	19	1.50
3.	Non-recovery of departmental charges	26	1.14
4.	Management of <i>Nazool</i> ² and other Government land	12	1.66
5.	Other irregularities	24	1.95
Total		82	7.29
B: Electricity duty			
1.	Loss of revenue due to short fall in periodical inspections	2	10.26
2.	Loss of revenue due to non-realisation of inspection fee on pumping sets.	1	0.41
3.	Short levy of Electricity duty	1	25.46
Total		4	36.13
C: Entertainment tax			
1.	Non-recovery of entertainment tax/duty from cinema houses/video parlours	12	3.98
2.	Non-recovery of entertainment duty from cable operators	5	0.22
Total		17	4.20
Grand total		103	47.62

During the year 2008-09, the concerned departments accepted audit observations to the tune of Rs. 55.55 lakh in five cases.

A review of ‘**Internal control in the land revenue department for recovery of arrears of land revenue**’ involving Rs.1.04 crore and few other illustrative audit observations involving Rs. 27.29 crore are mentioned in the succeeding paragraphs.

¹ Remuneration paid to the village watchman.

² The land situated beyond two miles of the municipal limits, which has escheated to the State Government and has not already been appropriated by the State Government for any purpose.

A: Land Revenue

6.2 Review of “Internal control in the Land Revenue Department for recovery of dues treated as arrears of land revenue”

Highlights

No effective control mechanism was in place for monitoring and reconciliation of the revenue recovery certificates sent to other districts/States.

(Paragraph 6.2.7)

Internal control mechanism prescribed for recovery and reporting was deficient leading to huge variations between the number and amount of revenue recovery certificates sent by the collectors and accounted by the Tehsildars.

(Paragraph 6.2.8)

Absence of internal control for periodical review of recovery of dues, coupled with inaction resulted in poor recovery, which ranged between 1.61 and 5.45 *per cent* during the review period. 82.61 to 92.15 *per cent* cases were pending for recovery with the department.

(Paragraph 6.2.9)

Non-compliance of the provisions relating to service/collection charges resulted in non-realisation of Rs. 82.10 lakh revenue to the State Government besides departure from prescribed instructions.

(Paragraph 6.2.11)

Non-compliance of provisions of the Punjab Land Revenue Act, 1887 regarding the writ of demand resulted in delay from seven to 36 months for initiating the recovery process.

(Paragraph 6.2.14)

6.2.1 Introduction

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. It also helps in the creation of reliable financial and management information system for prompt and efficient service and for adequate safeguards against recovery of dues.

The modes of recovery of arrears of the Government departments/undertakings, corporations, banks etc. are laid down in the relevant Acts of the concerned departments/organisations. However, if recovery cannot be effected and the dues become irrecoverable under the provisions of the relevant Acts, the officers responsible for administering the Acts are required to send requisitions in the prescribed form, furnishing full details of the defaulter and the recovery to be effected as arrears of land revenue to the District Collector (Collector), who after approving the demand forwards to the tehsildar/naib tehsildar under whose jurisdiction the property of the defaulter is situated. Arrears of land revenue is the first charge upon the rents, profits and produce of land. Under the provisions of Punjab Land Revenue Act, 1887 (PLR Act), any sums recoverable as arrears of land revenue under the various fiscal Acts can be recovered by effecting service of writ of demand, arrest and

detention of the defaulter, sale of movable property and crops, attachment of the estate or holding and by proceeding against other immovable property of the defaulter.

According to the provisions of Revenue Recovery Act, 1890 (RR Act), when an arrear of land revenue or a sum, recoverable as arrears of land revenue, is payable to a Collector by a defaulter having property in a district other than that in which the arrear accrued or the sum is payable, the Collector may send the revenue recovery certificate (RRC) in the prescribed form to the Collector of the district where property of the defaulter is situated, to recover the amount as if it were an arrear of land revenue which had accrued in his own district.

A review of the adequacy and effectiveness of internal control in the land revenue department for recovery of dues treated as arrears of land revenue revealed a number of system deficiencies which are discussed in the succeeding paragraphs.

6.2.2 Organisational set up

The overall superintendence and control of the Land Revenue Department vests with the Financial Commissioner (Revenue). For the purpose of recovery of dues treated as arrears of land revenue, the State has been divided into four Commissionerates (Faridkot, Ferozepur, Jalandhar and Patiala), each under the charge of a Commissioner and 20 districts, each under the charge of a Collector. The Collector exercises the control through Assistant Collectors (tehsildars and naib tehsildars) and other staff in the district.

6.2.3 Scope and methodology of audit

Mention was made in paragraph 6.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1999 (Revenue Receipts) Government of Punjab, highlighting the shortcomings during the years from 1994-95 to 1998-99 regarding 'Internal control in land revenue department for recovery of dues treated as arrears of land revenue'. With a view to ascertain the action taken by the department to rectify the defects and irregularities already pointed out, effectiveness and adequacy of the internal control mechanism in the recovery of dues treated as arrears of land revenue, a test check in 29 tehsils³ out of 77 tehsils covering the period 2003-04 to 2007-08 was conducted between October 2008 and March 2009.

6.2.4 Audit objectives

The review was conducted with a view to assess:

- effectiveness of the internal control system to collect the dues treated as arrears of land revenue and
- compliance of the prescribed rules and procedure related to recovery of the dues treated as arrears of land revenue.

³ Gurdaspur (five), Ludhiana (seven), Patiala (five), Ropar (six) and Sangrur (six).

6.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Land Revenue Department and the Collectors for providing information and records for audit. The draft review was forwarded to the department and the Government in April 2009. No entry and exit conference could be held as the department did not give any response to the request of Audit for holding the conference.

6.2.6 Trend of recovery

The year wise consolidated position of number of RRCs received, disposed and outstanding and the amount involved at the end of each year was not available at the Government level. However, on the basis of information collected from test checked districts, the position is mentioned below:

(In crore of rupees)

Year	Opening balance	Addition	Total	Returned without recovery	Recovered	Balance
2003-04	5.09	69.20	74.29	8.36	0.99	64.94
2004-05	64.94	60.37	125.31	20.71	0.79	103.81
2005-06	103.81	42.49	146.30	23.18	0.89	122.23
2006-07	122.23	33.12	155.35	36.15	0.98	118.22
2007-08	118.22	80.87	199.09	21.95	0.66	176.48

It could be noticed from the above that while the total amount to be recovered was on the rise from Rs. 74.29 crore in 2003-04 to Rs. 199.09 crore in 2007-08, the amount recovered was paltry and the performance was worst in 2007-08. This indicates ineffectiveness of implementation of the RR Act.

Audit findings

System deficiencies

6.2.7 Lack of control in respect of RRCs sent to other collectors

Under the provisions of the RR Act, when an arrear of land revenue is payable by a defaulter having property in a district other than that in which the arrear accrued or the sum is payable, the collector may send to the collector of the other district a RRC stating the name of the defaulter and such other particulars as may be necessary for identification of the defaulter, the amount payable by him and the ground on which it is due. The Collector of the other district shall, on receiving the certificate, proceed to recover the amount stated therein as if it were an arrear of land revenue which had accrued in his own district.

During test check of the records of Collector, Patiala, it was noticed that 13 RRCs involving Rs. 82.99 lakh were sent to other districts/states between September 2003 and August 2008 for recovery of the arrears of land revenue from the defaulters having properties in those districts/States. Further scrutiny of the RRCs sent to the other collectors disclosed the following:

- The Collector, Patiala sent two RRCs each to the Collectors of Ludhiana, Ropar and Sangrur for recovery between September 2003 and August

2008. It was observed by audit that the Collectors of Ludhiana and Ropar had not entered the RRCs in the Running Register II (RR-II) while the Collector Sangrur had not maintained the RR-II. Thus, due to non-recording of the transactions in the RR-II and non-maintenance of the register, progress made in recovery of the dues and pendency thereof could not be verified.

- The progress of recovery of seven RRCs (Rs. 72.75 lakh) sent to the Collectors of other States could not be verified in audit as no records were available with the originating offices. Thus, due to non-maintenance of records of RRCs sent to other States, the department was not in a position to initiate the follow up actions; as a result of which the recovery against these RRCs became doubtful.

After the cases were pointed out in November 2008, the Collector, Patiala stated that the point was noted for future compliance.

6.2.8 Non/improper maintenance of initial records

As per instructions contained in the Standing Order No. 31 about the procedure to be followed for maintenance of registers/records in the office of the Collectors/tehsildars on receipt of requisition from the requisitioning authorities, the concerned Collector shall first get it entered in RR-II before transmitting it to the concerned tehsildars. The tehsildar in turn, is required to enter the RRCs immediately in their RR-II. Further, a writ of demand is to be issued by the Revenue Officer on or after the day following that on which the arrear of land revenue accrues.

Test check of the records revealed the following:

- The RR-II was not at all maintained in Sangrur collectorate and in other offices, it was not maintained in prescribed format. Due to non/improper maintenance of the registers/records, the progress made in recovery of dues and pendency thereof could not be verified by the recovery officers.
- The comparison of RR-II maintained by the collectorates with the RR-II maintained by the tehsils, revealed that there were variations between the RRCs sent by the Collectors and RRCs accounted for by the tehsildars as detailed below:

(In crore of rupees)

Year	Demand approved by Collectors		Demand accounted for by tehsildars		Variation	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2003-04	296	11.48	321	8.28	(+)25	(-) 3.20
2004-05	237	25.96	181	18.05	(-)56	(-) 7.91
2005-06	231	5.56	174	9.52	(-)57	(+) 3.96
2006-07	159	1.94	202	7.70	(+)43	(+) 5.76
2007-08	240	19.58	175	8.50	(-)65	(-)11.08
Total	1,163	64.52	1,053	52.05	(-)110	(-)12.47

- Against the RRCs of Rs. 57.02 crore sent by the Collectors, only RRCs of Rs. 34.83 crore were accounted for by the tehsildars during 2003-04, 2004-05 and 2007-08. As a result, demands of Rs. 22.19 crore were not accounted for by the tehsildars.
- During the year 2003-04, the number of cases accounted by the tehsildars was higher (321) than the cases (296) forwarded by the various Collectors whereas the amount (Rs. 8.28 crore) registered by the tehsildars for recovery was lower than the amount of RRCs sent by the Collectors (Rs. 11.48 crore).
- The RRCs for Rs. 7.50 crore were sent by the Collectors during the year 2005-06 and 2006-07 against which RRCs of Rs. 17.22 crore were erroneously accounted for by the tehsildars. Thus, there was excess account of demands involving Rs. 9.72 crore in eight tehsils⁴.
- 17 RRCs involving Rs. 108.69 crore issued by three Collectors⁵ between August 1999 and November 2007 for recovery were not found registered in the RR-II in the offices of the concerned tehsildars. Of these, four RRCs of Rs. 98.38 crore sent between August 1999 and October 2001 were not found registered in the records of tehsil. As a result of this, the action for recovery against the RRCs could not be initiated despite the express provisions contained in the PLR Act which *inter alia* provided that the action for recovery was to be initiated by the tehsildar on or after the day (August 1999 to October 2001) following that on which the arrear of land revenue accrued.

Audit observed that as reconciliation was not carried out, the differences between the cases referred by the Collectors to tehsils did not come to the notice of the authorities. Thus, failure to reconcile the demands resulted in variations and non-recovery of arrears to be recovered as arrears of land revenue.

6.2.9 Ineffective rate of recovery

Under the provisions of PLR Act, any sums recoverable as arrears of land revenue under various fiscal Acts can be recovered by effecting service of writ of demand, arrest and detention of defaulter, distress and sale of movable property and crops, attachment of the estate or holding, annulment of the assessment of the estate or holding, sale of the estate or holding and by proceeding against other immovable property of the defaulter. However, no system of periodical review of the pending cases has been prescribed.

Year wise position of the RRCs, RRCs returned without recovery, number of RRCs where recovery made and the balance cases during the five years from 2003-04 to 2007-08 in respect of five districts⁶ test checked, is tabulated below:

⁴ Anandpur Sahib, Jagraon, Khanna, Morinda, Rajpura, Ropar, Samana and Samrala.

⁵ Gurdaspur, Patiala and Ropar.

⁶ Gurdaspur, Ludhiana, Patiala, Ropar and Sangrur.

Year	Opening balance	Fresh demand	Total demand	RRCs returned	RRCs where recovery made	Closing balance (per centage of pendency)	Percentage of	
							Cases where recovery made (6 to 4)	Cases returned (5 to 4)
1	2	3	4	5	6	7	8	9
2003-04	56	1,515	1,571	162	56	1,353 (86.12)	3.56	10.31
2004-05	1,353	829	2,182	245	102	1,835 (84.09)	4.67	11.23
2005-06	1,835	898	2,733	326	149	2,258 (82.61)	5.45	11.93
2006-07	2,258	523	2,781	151	80	2,550 (91.69)	2.88	5.43
2007-08	2,550	750	3,300	206	53	3,041 (92.15)	1.61	6.24
Total		4,515		1,090	440			

The above table shows that during 2003-08 recovery was effected in just 1.61 to 5.45 *per cent* of the cases. The cases returned without recovery ranged from 5.43 to 11.93 *per cent*. The reasons for high rate of return of cases without recovery could not be ascertained in audit as in majority of the cases, no specific reasons were found recorded either in the tehsils or in the collectorates. The poor rate of recovery of the dues resulted in large scale pendency of cases from 56 in 2003-04 to 3,041 in 2007-08.

After the cases were pointed out, the Collectors/tehsildars stated that accumulation of arrears was due to non-furnishing of correct/complete address and details of property of defaulters by the requesting authority. The reply is not acceptable as the recovery certificates for recovery of the dues as arrears of land revenue are required to be supported by complete and relevant documents/particulars of the defaulter. Further, if the details were incomplete, such cases should have been returned promptly to the requisitioning authorities and not kept pending without any action.

6.2.10 Internal audit

Internal Audit Organisation (IAO) is a vital component of the internal control mechanism and enables an organisation to assure itself that the prescribed systems are functioning reasonably well. IAO was set up in October 1981 as an independent organisation under the State Finance Department and was entrusted *inter alia*, with the internal audit of receipts to safeguard against any loss or leakage of revenue arising under the various revenue heads. By a notification of November 1991, the focus of audit was shifted from revenue to expenditure audit. In June 2004, Government again introduced internal audit of receipts from the year 2004-05. However, IAO intimated in May 2009 that internal audit of recoveries of dues treated as arrears of land revenue was not being conducted by the IAO. As such audit is unable to comment on the adequacy and efficacy of internal audit as far as recovery of dues is concerned.

Compliance deficiencies

6.2.11 Non-recovery of service fee/charges

6.2.11.1 The PLR 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 collection shall be deducted as service charges by the collector. Further, the instructions issued by the Government in July 2007 provide for charging of

service charges at the rate of five *per cent* in cases of recoveries relating to corporations, boards and banks.

During the test check of records of eight Collectors⁷, it was noticed between November 2007 and March 2009 that an amount of Rs. 4.30 crore as arrears of land revenue was recovered between April 2003 and March 2008. But collection of service charges of Rs. 21.48 lakh at the rate of two/five *per cent* of the arrears recovered was neither deducted nor demanded from the corporations, boards and banks.

6.2.11.2 Further, as per the instructions issued by Government in July 2007, 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 RRCs.

Test check of the records of four Collectors⁸ revealed that 111 RRCs involving recovery of Rs. 41.05 crore were accepted without receipt of non-refundable advance payment of service charges of Rs. 82.10 lakh between July 2007 and March 2008 in contravention of the Government instructions. This resulted in non-realisation of revenue of Rs. 82.10 lakh.

After the cases were pointed out, all the tehsildars stated that recovery of service fee/charges would be made as per directions of the Government. The reply is contrary to the rules as the Collectors were to accept the RRCs from the requisitioning authorities alongwith two *per cent* non-refundable advance payment towards the service charges. Failure to do so resulted in non-realisation of Rs. 82.10 lakh.

6.2.12 Non-observance of standing instructions

In terms of instructions contained in the Standing Order No. 31, the tehsildars are required to send the monthly return to the collector indicating the RR-II serial number of RRC in the collector office, serial number of RR-II at his office, amount paid and date of payment. The details of payments so received at the collector's offices are to be incorporated in the RR-II at the collector office to be inspected by the deputy collector or by an officer authorised by the collector.

At the end of the year, a statement should be made out for each section of the RR-II showing all balances outstanding, both at the collector and tehsil level. The collector's RR-II should be checked by the Revenue Assistant and the RR-II at the tehsil by the tehsildar and the balances should thereafter be transferred to the RR-II for the ensuing year. A certificate recorded by these officers both in the old RR-II and in the new RR-II to the effect that the balances outstanding for the year which has expired have been checked and transferred to the register for the ensuing year.

6.2.12.1 Test check of records at the tehsils revealed that the monthly return on recovery was not submitted to the collector by six offices⁹ regularly. No action was taken by the collector's office in these cases.

⁷ Bathinda, Gurdaspur, Kapurthala, Ludhiana, Muktsar, Patiala, Ropar and Sangrur.

⁸ Gurdaspur, Ludhiana, Patiala and Ropar.

⁹ Batala, Dhuri, Ludhiana (East), Ludhiana (West), Samrala and Sunam.

6.2.12.2 Test check of records at four Collectors¹⁰ offices revealed that though the return was submitted, the details of payments so received at the collector's offices which was to be incorporated in the RR-II were not incorporated.

6.2.12.3 A statement for each section of the RR-II showing all the balances outstanding both at collector and tehsil level required to be made at the end of each year was not made in 26 tehsils and four collector offices. Also the certificate required to be recorded was also not recorded in these offices.

6.2.13 Return of the recovery certificates after a long delay

Under the provisions of RR Act, the recovery certificates for recovery of dues as arrears of land revenue should be supported by complete and relevant documents/ particulars of the defaulters to enable the Collector to make speedy recoveries.

Test check of records of four Collectors¹⁰ for the years 2003-04 to 2007-08 revealed that 712 RRCs involving Rs. 70.13 crore were returned to the various issuing authorities after holding the RRCs for a period from six to nine months as detailed below:-

Sr. no.	Reasons for returning of the RRCs	No. of cases returned	Delay in months	Amount (Rs. in crore)
1	Incorrect/ incomplete address	182	09	8.51
2	No reasons recorded	357	06	37.45
3	Whereabout of the defaulters not known	94	07	12.98
4	No property in the name of defaulters, property already attached/ mortgaged	79	08	11.19
Total		712		70.13

Such abnormal delays reflect the poor internal mechanism to watch progress of recovery of the dues.

After the cases were pointed out, the Collector, Patiala stated that directions had been issued to the tehsildars for compliance. The other Collectors stated that the point had been noted for future compliance.

6.2.14 Abnormal delay in raising of demands

The PLR Act provides for recovery of arrears of land revenue by taking recourse to coercive processes namely by service of writ of demand, warrants of arrest and detention, sale of movable property and sale of holdings of the defaulters which are recorded and watched through RR-II.

Test check of the records revealed that 3,041 out of 4,515 RRCs received during the years 2003-04 to 2007-08, were pending for recovery as on 31 March 2008. Further scrutiny by Audit disclosed that action in most of the pending RRCs was not initiated by the recovery officers on or after the day following that on which the arrear of land revenue accrues. There were large number of cases in which there was delay in issuing the notices, which ranged between seven to 36 months as given below:-

¹⁰ Gurdaspur, Ludhiana, Patiala and Ropar.

(In crore of rupees)

Name of district	No. of RRCs	Period of receipt of RRCs	Delay in months	Amount involved
Patiala	206	October 1999 to October 2007	36	1.14
Ropar	16	May 1998 to May 2003	10	0.07
Ludhiana	72	April 2003 to February 2008	07	2.09
Sangrur	38	November 2002 to February 2008	07	1.19
Total	332			4.49

A specific case of delay is illustrated below:-

Test check of the records of Collector Ludhiana revealed that an attachment order of property on account of non-payment of Rs. 35.85 lakh as arrears of land revenue was received from the Special Recovery Officer, Mumbai in May 2006 and the Collector forwarded the same to the Tehsildar, Ludhiana (East) in September 2006 for attachment of property of the defaulters situated under the jurisdiction of the Tehsildar. The Tehsildar did not initiate any action till date (March 2009), whereas the PLR Act provides to initiate the action on or after the day following that on which the arrears of land revenue accrue. The delay in large number of cases indicate the system failure in monitoring the cases.

After the cases were pointed out, the tehsildars stated that reply would be given after verification of records and points noted for future compliance.

6.2.15 Conclusion

It would thus be seen that due to non-existence of effective monitoring system, non-compliance of statutory provisions and lack of control over recovery of dues treated as arrears of land revenue, the amount of arrears accumulated from Rs. 5.09 crore to Rs. 176.48 crore during the period of review. It is necessary for the Government to have a detailed look at the system and create/fix appropriate responsibility centres to watch collection and procedure to ensure prompt recovery of dues treated as arrears of land revenue.

6.2.16 Recommendations

Government may consider:

- prescribing returns for monitoring the collection of demands against the RRCs sent to other districts/states,
- issuing instructions to the Collectors for periodical reconciliation and review of the pending cases with the tehsildars so that correctness of RRCs sent and accounted for by the tehsildars can be achieved,
- issuing instructions to the revenue department for strict compliance of provisions of the Act/Rules and departmental instructions and responsibilities fixed for failure at appropriate levels, and
- making the IAO operational to ensure timely detection and correction of errors in collection of the dues as arrears of land revenue.

6.3 Other audit observations

Scrutiny of records of land revenue, electricity duty and entertainment tax/duty revealed several cases of non-observance of provisions of Government policy/notification and other cases as mentioned in the succeeding paragraphs. These cases are illustrative and are based on a test check carried out in audit. There is need for the Government to improve the internal control mechanism so that such omissions can be avoided, detected and corrected.

6.4 Loss of revenue due to non-eviction of the unauthorised occupants

Non-compliance of State Government policy for disposal of rural/urban evacuee land framed in November 1990 and April 1997 resulted in loss of revenue of Rs. 1.62 crore due to non-eviction of the unauthorised occupants.

The State Government laid down (November 1990 and April 1997) the policy for disposal of rural/urban evacuee land. The unauthorised occupants of the Government land shall apply to the concerned tehsildar within a period of three months for the transfer of such land and it could be transferred at the rate of Rs. 7,000 per acre for persons of general category and Rs. 6,000 per acre for members of the scheduled castes and backward classes. Further, in terms of the Government orders issued in November 1990, rent for unauthorised occupation and cultivation of rural and urban agricultural land is chargeable at the rate of Rs. 250 and Rs. 500 per acre, per harvest respectively.

During test check of the records in five District Revenue Officers¹¹ (DRO) and three tehsildars¹², it was noticed between December 2007 and January 2009 that 8,056 acres of Government land encroached between 2004-05 and 2008-09 were being used for agricultural purposes. The encroachers were neither evicted nor did they apply for regularisation/transfer of Government land as per the terms and conditions of the Government policy. The minimum rent of Rs. 1.62 crore¹³ for unauthorised occupation of 8,056 acres of Government agricultural land during 2004-05 to 2008-09 was recoverable from the unauthorised occupants for which no demands were raised. Failure to do so resulted in loss of Rs. 1.62 crore.

After the cases were pointed out between December 2007 and March 2008, the DRO Ropar intimated in December 2008 that recovery of Rs. 1.05 lakh had been made. The DRO, Mansa stated that the matter would be taken up with the higher authorities. The other DROs and tehsildars did not furnish the replies.

The matter was reported to the department and the Government between September 2008 and March 2009; their replies have not been received (September 2009).

¹¹ Batala, Ludhiana, Mansa, Ropar and Sangrur.

¹² Amloh, Balachaur and Sunam.

¹³ 6,841 acres of rural land at the rate of Rs. 500 for two/three years and 1,215 acres urban land at the rate of Rs. 1,000 per acre for three years.

B: Electricity Duty

6.5 Short levy of electricity duty

Non-compliance of Government notification of March 2005 regarding levy of electricity duty (ED) and incorrect exemption from levy of ED on certain items/establishment resulted in short levy of ED of Rs. 25.46 crore.

Under the provisions of Punjab Electricity Duty Act 2005 (PED Act), there shall be levied and paid to the state Government on the electricity supplied by the Punjab State Electricity Board (Board) to a consumer, ED at the rates specified by the Government from time to time. Further, under the notification of March 2005, the Government enhanced the ED on the electricity supplied by the Board from five *per cent* to 10 *per cent ad valorem* to all the consumers, except the consumers to whom the electricity is supplied for agricultural purposes.

Test check of records of the Chief Electrical Inspector (CEI) and cross verification of the records of levy and collection of ED maintained by the Board revealed that energy charges amounting to Rs. 4,525.29 crore (except the consumers, to whom the electricity was supplied for agricultural purposes) were collected from the consumers by the Board in the year 2007-08. ED of Rs. 452.53 crore was payable on the energy charges as per the rate prescribed by the Government against which an amount of only Rs. 427.07 crore was levied/deposited in the treasury by the Board. Further information collected from the CEI in June 2009 disclosed that the Board did not levy ED on the consumption of electricity on certain items¹⁴ treating these items as exempted. The CEI failed to detect the short levy of duty by the board. This resulted in non-demand/recovery of the differential duty of Rs. 25.46 crore.

After the case was pointed out in February 2009, the CEI stated that short payment of ED on the energy charges would be taken up with the Board.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

C: Entertainment Tax/Duty

6.6 Non-realisation of entertainment duty from cable operators

Non-registration of cable operators under the Punjab Entertainment Duty Act, 1955 resulted in non-realisation of entertainment duty of Rs. 20.55 lakh.

The Punjab Entertainment Duty Act, 1955 provides that entertainment duty of Rs. 15,000 per annum is payable with effect from 1 April 1999 by the proprietors providing entertainment with the aid of an antenna or cable television. The cable television operators (CTVOs) get themselves registered with the Department of Posts (DOP) under the Cable Television Networks (Regulation) Act, 1995.

¹⁴ Board's own offices, peak load exemption charges and minimum monthly charges.

During test check of the records of three AETCs¹⁵, it was noticed between June and July 2008 that no records were maintained by the AETCs to ascertain the number of CTVOs operating under their jurisdiction. Information collected by audit from the DOP revealed that in the area of the three AETCs 141 CTVOs were registered with the DOP for running cable television network during the year 2007-08. Cross verification of this information with the available records of the AETCs disclosed that 137 CTVOs had neither paid the entertainment duty nor it was demanded by the department. This resulted in non-realisation of entertainment duty of Rs. 20.55 lakh.

After the cases were pointed out, the AETC Jalandhar II stated that the actual number of CTVOs would be checked with reference to the records of post office as well as actual number of CTVOs in existence. The AETC Ludhiana-II stated that efforts would be made to recover the entertainment duty from the CTVOs. No reply was furnished by the AETC Ludhiana III. Further report on the action taken by the AETCs are still awaited.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

¹⁵ Jalandhar II, Ludhiana II and III.

Chapter VII: Non-Tax Receipts

7.1 Results of audit

Test check of records of the Housing and Urban Development, Industries, Lotteries, Home and Justice, Irrigation and Power and Water Supply and Sanitation departments during the year 2008-09, revealed irregularities amounting to Rs. 144.95 crore in nine cases, which broadly fall under the following categories:

(In crore of rupees)			
Sr. no.	Category	Number of cases	Amount
A: Housing and Urban Development			
1.	Receipts of Urban Development and Town Planning Department (A review)	1	95.89
B: Industries and Commerce Department			
2.	Non-recovery of guarantee fee	1	24.07
3.	Non-transfer of unclaimed amount to Government account	1	0.19
Total		2	24.26
C: Lotteries Department			
4.	Non-deduction of establishment cost	2	18.30
D: Home and Justice Department			
5.	Non-receipt of capitation fee in advance	1	4.25
6.	Failure to recover the cost of deployment of police force	1	2.06
Total		2	6.31
E: Irrigation and Power Department			
7.	Non-recovery of cess	1	0.06
F: Water Supply and Sanitation Department			
8.	Utilisation of departmental receipts towards expenditure	1	0.13
Grand total		9	144.95

A review on 'Receipts on Urban Development and Town Planning Department' involving Rs. 95.89 crore and a few illustrative audit observations involving Rs. 38.12 crore are discussed in the succeeding paragraphs.

A: Housing and Urban Development Department

7.2 Review of “Receipts of Urban Development and Town Planning Department”

Highlights

Failure on the part of Chief Town Planner to demand the licence/permission fee against the services rendered by the department resulted in loss of revenue of Rs. 46.02 crore.

(Paragraph 7.2.9)

Failure on the part of the Chief Town Planner, Punjab to recover the conversion charges resulted in irregular retention of Government receipts of Rs. 15.08 crore by Greater Mohali Area Development Authority.

(Paragraph 7.2.11)

Due to inaction on the part of the Chief Town Planner, planning charges of Rs. 34.73 crore remained to be realised.

(Paragraph 7.2.12)

7.2.1 Introduction

Under the provisions of the Punjab Regional and Town Planning and Development Act, 1995 (PRTPD Act), the State Regional and Town Planning and Development Board was constituted for guiding and directing the town planning and development processes in the State. Special Urban Planning and Development Authorities and New Town Planning and Development Authorities were constituted for effective and planned development of the areas, for undertaking urban development and housing programmes and schemes for establishing new towns.

The PRTPD Act provides that every person intending to change the existing use of any land in a controlled area, for the purpose of developing it into buildings for residential, industrial, commercial or other purposes, shall be granted permission after he makes payment of change of land use (CLU) charges and licence/permission fee at the prescribed rates. Separate rates of conversion charges have been notified for different places as well as different categories of land use (residential, commercial, institutional, industrial, etc.) by the Government from time to time.

The other receipts of the department consist of planning charges recoverable from Improvement Trusts, Municipal Corporations, Municipal Councils, Punjab State Marketing Board and other agency/department, who avails the services of the Chief Town Planner Punjab (CTP), Chandigarh for planning purposes; scrutiny fee of building plans; fee for access from scheduled roads; charges for installation of communications towers and antennas; permission fee for installation of petrol pumps and gas godowns; licence fee for setting up of residential colonies and sale of maps etc. The receipts from the above sources are required to be credited to the Government account.

Audit reviewed the assessment and collection of CLU/planning charges, license/permission fee and other receipts of the department. The review

revealed a number of system and compliance deficiencies, which are discussed in the succeeding paragraphs.

7.2.2 Organisational set up

The Secretary to the Government of Punjab, Housing and Urban Development is the overall incharge of the Urban Development and Town Planning Department. Subject to overall control and superintendence of the CTP, the administration of the PRTPD Act and Punjab Regional and Town Planning and Development (General) Rules, 1995 (PRTPD Rules) is carried out by six Senior Town Planners (STPs) and 17 District Town Planners (DTPs) and other allied staff at district level.

7.2.3 Scope and methodology of audit

With a view to evaluate the effectiveness of the department in realisation of the receipts, the relevant records of the CTP, two STPs (Ludhiana and Patiala) and seven DTPs¹ for the period from 2005-06 to 2007-08 were test checked between October 2008 and February 2009. The data/information collected from the CTP was cross verified with the records of the DTPs and examined with reference to the provisions of PRTPD Act/Rules and instructions issued by the Government from time to time.

7.2.4 Audit objectives

The review was conducted with a view to ascertain:

- the efficiency and effectiveness of the State machinery in the implementation of various provisions and instructions to assess, collect and account the fee/charges,
- the existence of effective internal control mechanism to avoid loss of revenue.

7.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Housing and Urban Development Department and CTP, Punjab in providing necessary information and records for audit. An entry conference was held with the Secretary, Housing and Urban Development Department. The draft review was forwarded to the department and the Government in April 2009 and was discussed in an exit conference held on 25 May 2009 wherein the Government was represented by the Secretary, Housing and Urban Development. The views of the Government have been taken into account while finalising the review.

Audit findings

7.2.6 Trend of revenue

As per the provisions of Punjab Budget Manual (Manual), the actuals of the previous year and the revised estimates of the current year ordinarily serve as

¹ Amritsar, Bathinda, Gurdaspur, Jalandhar, Ludhiana, Mohali and Patiala.

guide in framing the budget estimates for the ensuing year. The reasons that led to adoption of the figures for the budget estimates should be briefly and clearly explained. The budget estimates and actual realisation of receipts for the years 2005-06 to 2007-08 were as under:

(In crore of rupees)

Year	Budget estimates	Actuals	Variations excess(+)/shortfall(-)	Percentage of variations
2005-06	0.30	25.07	(+)24.77	(+)8,256.67
2006-07	3.35	65.15	(+)61.80	(+)1,844.78
2007-08	11.50	63.28	(+)51.78	(+) 450.26

It may be noticed from the huge variations that the budget estimates were unrealistic and were made without any basis. Audit observed that levy of fee for access to scheduled roads, processing fee of applications for buildings outside the municipality limits introduced in April 2005, permission fee for installation of communication towers introduced in September 2007 and enhancement of rates of CLU in September 2007 were not taken into consideration while framing the budget estimates. The reasons for variation of the budget estimates with the actuals during 2006-07 called for in April 2009 were awaited (September 2009).

System deficiencies

7.2.7 Absence of database of plans

7.2.7.1 As per provisions of the PRTPD Act, no development in respect of or change of land use of any land shall be undertaken without obtaining permission from the competent authority. Any permission granted under this Act shall remain in force for a period of two years from the date of grant of such permission.

The State of Punjab consists of 167 towns and the development of the towns was executed by the CTP through seven development agencies². The Master plans of cities and towns prepared by the CTP contains proposals for development of the town, identifying areas for meeting the long term requirement of land for different uses such as residential, commercial, industrial, public utilities and services.

Scrutiny of the records maintained by the CTP revealed that a data base of the plans prepared by the CTP, approved by the Government and executed by the development agencies/developers between April 2005 and March 2008 had not been kept by the CTP. Consequently, the number of plans prepared by the CTP, plans approved by the State Government, plans executed by the development agencies/developers and the number of plans pending with the development agencies/developers could not be verified in audit. Besides this, the execution of plans within the specified period as prescribed in the PRTPD Act had not been quantified by the department/Government.

² Amritsar Development Authority (ADA), Bathinda Development Authority(BDA), Greater Ludhiana Area Development Authority (GLADA), Greater Mohali Area Development Authority (GMADA), Jalandhar Development Authority(JDA), Patiala Development Authority(PDA) and Punjab Urban Planning and Development Authority(PUDA).

7.2.7.2 Absence of database of promoters and estate agents

Under the Punjab Apartment and Property Regulation Act, 1995 (PAPRA), no person shall carry on the business of promoter or estate agent, or represent or hold himself out as carrying on such business except under the Act and in accordance with the terms and conditions of the certificate of registration. The PAPRA further provides that every certificate of registration of a promoter or an estate agent shall be valid for a period of five years and on the expiry of such period, it may be renewed for another period of five years by competent authority, on an application along with prescribed fee, made by the promoter or the estate agent. Every registered promoter or estate agent shall furnish to the competent authority periodical returns showing the details of transactions made by them.

Test check of records of CTP disclosed that no database of registration of the promoters or estate agents registered with the department, renewal of registration certificate and periodical returns filed by these promoters or estate agents and the fee realised from them were maintained by the CTP. Resultantly, the CTP was not in a position to ascertain the number of registered promoters or estate agents, renewal of their registration certificates, fee collected on this account and the number of promoters or real estate agents carrying out activities in the state without holding valid registration certificates.

7.2.8 Internal control

7.2.8.1 Internal controls are intended to provide reasonable assurance of proper enforcement of law, rules and departmental instructions. They help in prevention of irregularities. Internal control also helps in the creation of reliable financial and management information system for prompt and efficient service and for adequate safeguards against evasion of Government revenue.

It was noticed during review that the CTP did not develop any control mechanism for monitoring the work done and collection of revenue by the STPs/DTPs.

7.2.8.2 Internal audit

Internal Audit Organisation (IAO) is a vital component of the internal control mechanism and is generally defined as the control of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. IAO was set up in October 1981 as an independent organisation under the State Finance Department and was entrusted *inter alia*, with the internal audit of receipts to safeguard against any loss or leakage of revenue arising under the various revenue heads. By a notification of November 1991, the focus of audit was shifted from revenue to expenditure audit. In June 2004, the Government again introduced internal audit of receipts from the year 2004-05. However, it is seen from the duties entrusted to IAO that the audit of the CTP had not been entrusted by the Government. Thus, the department was not subjected to internal audit.

Compliance deficiencies

7.2.9 Loss of revenue

The Punjab Government by a notification in January 2005 appointed the STP and DTP as the competent authority to exercise and perform all or any of the powers and functions of PAPRA and Rules framed thereunder. These authorities were empowered to grant licences/permissions to the developers of colonies not exceeding an area of 10 gross acres. For area exceeding 10 gross acres, the powers were vested with the CTP. Licence/Permission fee is the fee for granting permission to the colonisers/ promoters for their projects. Further, as per instructions contained in another notification of January 2005, the application shall be submitted alongwith a demand draft in favour of the STP or DTP, as the case may be, at rates as prescribed for the issue of licence/permission fee under the PAPRA. In August/September 2007, the Government decided to levy the license/permission fee ranging from Rs. 0.25 lakh to Rs. 2 crore per gross acre in different categories for granting permission to the colonisers/promoters for their projects.

During test check of the records of CTP, it was noticed in April 2009 that the Punjab Government vide notifications³ issued in August 2007 and September 2007 authorised the urban development authorities (DAs) to grant licences/permissions and to retain the licence/permission fee for planning and development of the areas in their jurisdiction. These notifications were issued without mentioning any reference to the existing notifications and provisions of PAPRA. Audit observed that the notifications issued in January 2005 were still in force and the licence/permission fee continued to be the receipts of the Government to be credited to the Consolidated Fund of the State. Therefore, the licence/permission fee of Rs. 46.02 crore deposited by the developers/promoters with the various DAs against the licences/permissions granted by the CTP in 40 cases between September 2007 and February 2008 were required to be deposited in the Government account. Thus, failure on the part of CTP to collect the licence/permission fee from the concerned DAs resulted in loss of revenue of Rs. 46.02 crore.

The Government to whom the case was reported in April 2009, intimated in July 2009 that the notification of January 2005 was rescinded vide notification dated 20 March 2008 with immediate effect. The fact, however, remains that the notification dated 20 March 2008 was applicable on or after 20 March 2008 and the loss of revenue mentioned above pertains to the period from September 2007 to February 2008.

7.2.10 Delay in granting permission of CLU

Under the provisions of PRTPD Act, if the competent authority does not communicate to grant or refuse permission to the applicant within sixty days from the date of receipt of his application or within sixty days from the date of reply given by the applicant in respect of any observation made by the competent authority, whichever is later, such permission shall be deemed to

³ No. 17/17/01-5HG2/6666 dated 17 August 2007 and No. 17/17/01-5HG2/7623 dated 19 September 2007.

have been granted to the applicant on the date immediately following the date of expiry of sixty days.

It was noticed that permission of CLU in 14 out of 66 cases was granted during 2007-08 with a delay ranging from two to five months. Further scrutiny by audit revealed that no separate register/return was prescribed to watch progress of the cases in which observation was made. In such cases, the delay in finalisation could not be verified in audit.

7.2.11 Irregular retention of conversion charges

As per the notification issued by the Government on 17 August 2007, the promoters/developers seeking permission of CLU were required to pay the external development charges (EDC), license/permission fee and CLU charges at the rates prescribed by the Government from time to time. The EDC and licence/permission fee would be retained by the concerned DAs and conversion charges would be deposited in the Government treasury.

During test check of records of the CTP, it was noticed in January 2009 that a promoter applied for CLU in December 2006 to PUDA/GMADA (concerned DA) for the grant of permission for setting up a mega project on the land measuring 131.618 acres in Mohali. The promoter deposited an amount of Rs. 42.38 crore including conversion charges of Rs. 15.08 crore with PUDA/GMADA in January 2007. The permission required at the Governmental level was granted by the Government to the promoter in January 2007. Audit scrutiny disclosed that PUDA/GMADA had retained the conversion charges of Rs. 15.08 crore instead of crediting to the Government Account. Thus, failure on the part of the CTP to recover the conversion charges levied in terms of the aforesaid notification of August 2007 resulted in irregular retention of government receipts of Rs. 15.08 crore by PUDA/GMADA.

After the case was pointed out in January 2009, the CTP intimated in February 2009 that action had been initiated to recover the CLU charges from PUDA/GMADA.

7.2.12 Collection of arrears of planning charges

Under the provisions of PRTPD Act, application for permission to carry out any development in respect of any land shall be accompanied by such fee as may be prescribed. The State Government decided in January 2005 to levy the planning charges for the work connected with planning of colonies. The planning charges were also leviable on Improvement Trusts, Municipal Corporations, Municipal Councils, Notified Area Committees, Pepsu Township Development Board, Punjab State Marketing Board and any other agency/department for utilising the services of the CTP for planning purposes with effect from March 2005. The PRTPD Act also provides that any sum due to the Authority under this Act, rule or any regulation made thereunder shall be recoverable by the Authority from the defaulter as if they were arrears of land revenue. The Act is silent about the levy of interest for late payment of the planning charges.

Information collected from the CTP revealed that a sum of Rs. 34.73 crore was recoverable from three development agencies⁴ for the period 2005-06 to 2007-08. Though the dues can be recovered as arrears of land revenue, no revenue recovery certificate has been issued. Inaction on the part of CTP to recover the planning charges resulted in non-realisation of revenue amounting to Rs. 34.73 crore. Besides, there was a loss of revenue by way of interest of Rs. 3.42 crore, calculated upto March 2009 at Government borrowing rates; which could not be levied as there was no provision in the rules for levy of interest on belated payments.

Further scrutiny of the figures of arrears (Rs. 12.79 crore) shown by the CTP with the figures of arrears (Rs. 14.02 crore) collected by audit from the DTPs revealed that there was a difference to the extent of Rs. 1.23 crore. There was nothing on records to show that any action was initiated by the CTP to reconcile the figures of arrears with the DTPs.

7.2.13 Loss of interest due to delay in deposit of departmental receipts

Under the Punjab Financial Rules, departmental receipts collected during the day are required to be deposited in the treasury either on the same day or by the morning of the next working day.

Test check of the records of the CTP revealed that departmental receipts amounting to Rs. 21.31 crore collected during 2005-06 to 2007-08 were deposited in the treasury with a delay ranging from 11 to 53 days. This resulted in loss of interest of Rs. 5.91 lakh to the Government (calculated at the Government borrowing rates).

After the case was pointed out, the CTP stated that compliance of Financial Rules would be ensured in future.

7.2.14 Non-reconciliation of the deposits

The Punjab Financial Rules, Vol-I provide that departmental receipts collected and remitted into the treasury during the month be reconciled by the officer incharge with the figures appearing in the treasury records by 15th of the next month and discrepancy, if any, should be reconciled.

It was noticed that DTP Amritsar deposited an amount of Rs. 3.76 crore in the treasury between 2005-06 and 2007-08 and no reconciliation was done with the treasury by DTP. Non-reconciliation may lead to embezzlement and frauds which would remain undetected.

After the case was pointed out in February 2009, DTP stated that reconciliation would be conducted with the treasury and results thereof would be intimated to audit.

7.2.15 Conclusion

The deficiencies enumerated above indicate that management of assessment and collection of revenue receipts is not satisfactory. Compliance of Acts/Rules/instructions were not being followed. There exists no internal

⁴ PUDA Rs. 33.54 crore, BDA Rs. 1.10 crore and Punjab Mandi Board Rs. 0.09 crore.

control system to check the deficiencies and lapses in the implementation of various provisions of the Act/policies.

7.2.16 Recommendations

The Government may consider:

- streamline the system of monitoring the receipts by introducing reports and returns to be furnished by the DTPs showing the upto date position of arrears of revenue, amount recovered during the period under report, amount which could not be recovered and closing balance of arrears of revenue to be recovered at the end of the return period.
- entrusting audit to the IAO to ensure timely detection and correction of deficiencies in levy and collection of the departmental receipts.

7.3 Other audit observations

Scrutiny of records of industries, Lotteries, Home and Justice, Irrigation and Power and Water Supply and Sanitation Departments revealed cases of non-recovery of guarantee/capitation fee, non-observance of provisions of Government Financial Rules, non-recovery of cess and other cases as mentioned in the succeeding paragraphs. These cases are illustrative and are based on a test check carried out in audit. There is need for the Government to improve the internal control mechanisms so that such omissions can be avoided, detected and corrected.

B: Industries and Commerce Department

7.4 Non-recovery of guarantee fee

Non-compliance of the notifications issued between November 2000 and October 2006, resulted in non-recovery of guarantee fee of Rs. 24.07 crore.

According to 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 lending institutions/bond holders to assure them repayment of principal amount of loans/investments and interest payable thereon. Such guarantees constitute contingent liabilities of the State.

The State Government issued 10 notifications between November 2000 and October 2006 giving guarantee for the amount raised by Punjab State Industrial Development Corporation (PSIDC) and Punjab Financial Corporation (PFC). The guarantee fee on the guaranteed sum is payable at one time at the rate of two per cent and is to be credited to the Government account.

The information collected from PSIDC and PFC in January and February 2009 relating to the funds raised between November 2000 and October 2006 through issue of bonds on the basis of guarantee given by the Government, revealed that guarantee fee amounting to Rs. 24.07 crore was not deposited in the Government account by PSIDC and PFC as detailed below:-

(In crore of rupees)

Sr.no.	Name of institutions	Nature of guarantee	Year	Amount of loan	Guarantee fee not paid
1.	PSIDC	Placement of bonds	2000-01	100.00	2.00
			2001-02	79.47	1.59
			2002-03	174.59	3.49
			2003-04	143.38	2.87
			2004-05	237.11	4.74
			2005-06	184.28	3.69
			2006-07	130.00	2.60
2.	PFC	Placement of SLR bonds	2003-04	34.25	0.69
		Placement of non-SLR bonds	2005-06	119.76	2.40
Total				1,202.84	24.07

After the cases were pointed out in January 2009, the PFC intimated that matter regarding waiver of guarantee fee had been taken up with the Government but further progress was awaited. No reply was furnished by the PSIDC. Thus, the department did not monitor recovery of the guarantee fee.

The matter was reported to the department and the Government in February 2009; their replies have not been received (September 2009).

7.5 Non-transfer of un-claimed amount to Government account

Non-compliance of provision of Punjab Financial Rules, resulted in non-transfer of lapsed deposits of Rs. 18.82 lakh to the Government account.

The Punjab Financial Rules provide that every Government employee is personally responsible for the money which passes through his hands and for the prompt record of receipts and payments in the relevant account as well as for the correctness of the accounts in every respect. Further, codal provisions provide that earnest money received with the tenders or security deposits recovered from the contractors should be credited to Civil Deposits and be refunded/paid to them as and when claimed and balances remaining unclaimed for more than three financial years shall, at the close of March of each year, be credited to the Government account.

During test check of records of the Controller of Stores, Punjab, Chandigarh (Controller), it was noticed in July 2007 that the earnest money/security deposits amounting to Rs. 18.82 lakh (unclaimed balances) made by the intending tenderers between June 1999 and March 2004 were neither accounted for in the cash book nor were claimed by the tenderers. The Controller did not credit the unclaimed balances to the Government account as lapsed deposits (revenue) even after the unclaimed amount remained for more than three completed financial years. Thus, failure to take the envisaged action by the Controller had resulted in non-transfer of lapsed deposits of Rs. 18.82 lakh to the Government account.

After this was pointed out in July 2007, the Controller intimated in June 2008 that necessary action to credit the amount to Government account had been initiated. Final position of transfer of the unclaimed balances to Government account was awaited (September 2009)

The matter was reported to the department and the Government in February 2008; their replies have not been received (September 2009).

C: Lotteries Department

7.6 Non-deduction of the establishment cost

Non-compliance of provisions of the Punjab State Lotteries Rules, 1998, resulted in non-deduction of the establishment cost of Rs. 7.36 crore.

Under the Punjab State Lotteries Rules, 1998 (Rules) as amended in July 2000, the Directorate of Lotteries (Directorate) shall make deductions from the prizes of bumper draws of lottery as may be specified by the State Government from time to time towards the establishment cost of the Directorate enabling it to discharge its financial liabilities pertaining to the bumper draws of the lottery. The terms and conditions governing the schemes

of bumper draws prior to August 2004 contained provisions for deduction at the rate of 20 *per cent* of prize money paid in cash towards the establishment cost of the Directorate.

During test check of records of the Directorate, it was noticed in February 2009 that 13 bumper draws having total prizes valued Rs. 36.80 crore were paid in cash between January 2005 and March 2008, but the deductions towards the establishment cost were not made from the prizes of bumper draws as the terms and conditions of the bumper prizes schemes framed by the department did not provide for such deductions. Thus, failure on the part of the Directorate to approach the Government for the fixation of the quantum of deduction towards the establishment cost resulted in non-deduction of the establishment cost of Rs. 7.36 crore at the rate of 20 *per cent* of the prize money during January 2005 to March 2008.

After the cases were pointed out between December 2006 and February 2009, the Directorate intimated in October 2007 that the Finance Minister had announced during the prize distribution function held in August 2004 to make only the statutory deductions as per law. However, the Rules provide for the deductions.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

D: Home and Justice Department

7.7 Non-receipt of capitation fee in advance

Non-compliance of the instructions of the Director General of Police (January 2000) regarding charging of capitation fee in advance from other States for imparting training to police personnel, resulted in non-recovery of Rs. 4.25 crore.

As per instructions issued by the Director General of Police in January 2000, capitation fee from the trainees of other States should be charged in advance by settlement of terms and conditions and deposited in the Government account.

Scrutiny of records of the Commandant Police Recruitment Training Centre Jahan Khelan (Commandant PRTC) in February 2008 revealed that capitation fee of Rs. 4.25 crore was not collected in advance from the Government of Uttarakhand for the training imparted to their police personnel between April 2006 and February 2007. The failure on the part of Commandant PRTC resulted in non-recovery of Rs. 4.25 crore.

After the case was pointed out in February 2008, the Commandant PRTC stated that the matter remained under correspondence for quite some time due to confirmation of rates of the capitation fee to be charged. However, the fact remains that the State Government fixed the rates of capitation fee chargeable from trainees of other states for various courses as early as in May 2005.

The matter was reported to the department and the Government in January 2009; their replies have not been received (September 2009).

7.8 Failure to recover the cost of deployment of police force

Non-compliance of policy and instructions of the Railway Board (1979 and February 1983) regarding deployment of Government Railway Police for security of railways and reimbursement of cost thereof, resulted in failure to recover the cost of Rs. 2.06 crore for deployment of police force.

As per policy framed by the Railway Board (Board) in 1979 and provisions contained in the Government Accounting Rules, 50 per cent of the cost of police force deployed for security of railways within the State is to be reimbursed by the Board, provided the strength of Government Railway Police (GRP) is determined with the approval of the Board. As per the Railway Board's instructions dated February 1983, increase/strengthening of GRP can not be done without specific consultation/concurrence of the Board.

Mention was made in paragraph 7.3.5 of the Report of Comptroller and Auditor General of India (Revenue Receipts)-Government of Punjab for the year ended 31 March 2007, highlighting the unauthorised deployment of police force during the years from 2001-02 to 2005-06.

Scrutiny of records of Inspector General of Police, Government Railway Police, Patiala IG (GRP) during June 2008 revealed that the Director General of Police (Railway) Punjab had sought *ex post facto* sanction from the Board in December 2005 for 111 posts⁵ created by the State Government in 1990. The proposal, however, was not agreed to (September 2006) by the Board. Since the additional posts were created by the State without specific prior consultation/concurrence of the Board, the claim of Rs. 2.06 crore for the period from 2006-07 to 2007-08 required to be borne by Board could not be filed. Thus, the deployment of additional police personnel without prior concurrence led to forgoing of the claim for Rs. 2.06 crore for the period 2006-07 to 2007-08.

After the case was pointed out in June 2008, the IG (GRP) stated that matter was under consideration of the Board. The fact is that the IG (GRP) had neither withdrawn the additional police personnel deployed for security of railways after rejection of the proposal nor the matter regarding recovery from the Board was pursued seriously.

The matter was reported to the department and the Government in March 2009; their replies have not been received (September 2009).

E: Irrigation and Power Department

7.9 Non-recovery of cess

Non-compliance of the terms and conditions of the tripartite agreement resulted in non-recovery of cess of Rs. 6.05 lakh.

As per terms and conditions of the tripartite agreements⁶, Punjab Irrigation Department (PID) shall charge cess from the promoter at the rate of one paisa

⁵ 4 Sub Inspectors, 4 Assistant Sub Inspectors, 13 head constables and 90 constables.

⁶ Amongst Punjab Irrigation Department ; Punjab Energy Development Agency and M/s Aqua Power Ltd. Mohali.

per unit of electricity generated by the promoter as partial cost of maintenance of the canal system.

During test check of records of the Executive Engineer, Bathinda Canal Division, Bathinda, it was noticed in January 2009 that all the three Mini/Micro Hydro-electric Power Projects generated 6.05 crore units of electricity between November 2006 and December 2008. However, neither the demand of cess of Rs. 6.05 lakh was raised by PID nor it was paid by the promoter. Thus, failure on the part of the PID in raising the demand against the promoter resulted in non-recovery of cess amounting to Rs. 6.05 lakh.

After the case was pointed out in January 2009, the Executive Engineer stated that recovery would be made from the promoter.

The matter was reported to the department and the Government in April 2009; their replies have not been received (September 2009).

F: Water Supply and Sanitation Department

7.10 Utilisation of departmental receipts towards expenditure

Non-compliance of the Punjab Financial Rules and Government instructions of December 2002, resulted in un-authorized utilisation of departmental receipts towards expenditure.

Under the Punjab Financial Rules, utilisation of the departmental receipts towards expenditure is strictly prohibited. Further, under the State Treasury Rules, all moneys received by or tendered to Government servants on account of revenue of Government, shall without undue delay be paid in full into the treasury on the same day or on the next day. As per Government instructions (December 2002), the revenue collected from sale of dead/full grown trees, fines from wastage and wrong use of water and water tariff collected from private connections was allowed to be utilised for the payment of electricity bills, canal water charges and for the repair and maintenance of Rural Water Supply (RWS) Schemes.

During test check of records of the Executive Engineer, Water Supply and Sanitation (RWS) Division, Gurdaspur, it was noticed in February 2009 that departmental receipts amounting to Rs. 13.31 lakh collected on account of 1,408 new water connections during the period between January and December 2008, was utilised towards the expenditure for the repair and maintenance of RWS schemes in contravention of the Government instructions (December 2002) which *inter alia* did not permit the department to incur expenditure from the fee collected from new water connections.

After the case was pointed out, the Executive Engineer stated that receipts were utilised due to non-availability of funds for the payment of electricity bills. The departmental reply is contrary to the Government instructions (December 2002) and is against budgetary control and tantamount to by passing the legislative authority by the executive.

The matter was reported to the department and the Government in April 2009; their replies have not been received (September 2009).

Chandigarh:

(S.MURUGIAH)

The

Principal Accountant General (Audit), Punjab

Countersigned

New Delhi:

(VINOD RAI)

The

Comptroller and Auditor General of India

APPENDIX-I

**Yearwise details of the outstanding inspection reports and audit observations as on 30th June 2009
(Reference: Paragraph 1.11)**

(In crore of rupees)

Sr.No	Receipt Head	Upto 2004-05			2005-06			2006-07			2007-08			2008-09			Total		
		IRs	Obsr	Amt.	IRs	Obsr	Amt.	IRs	Obsr	Amt.	IRs	Obsr	Amt.	IRs	Obsr	Amt.	IRs	Obsr	Amt.
1	Sales tax	1,498	2,200	72.86	190	441	20.53	134	218	20.47	86	186	84.87	45	79	30.20	1,953	3,124	228.93
2	Land revenue	193	245	6.68	97	203	0.21	24	83	0.23	26	29	2.10	35	252	17.94	375	812	27.16
3	Stamp duty & registration fee	447	636	5.96	97	324	2.74	78	241	24.20	134	424	6.55	111	228	14.09	867	1,853	53.54
4	Taxes on motor vehicles	586	1,810	353.26	33	108	9.31	28	87	0.01	39	137	52.64	33	88	474.45	719	2,230	889.67
5	Forest receipts	117	181	35.35	9	26	2.54	16	73	34.60	15	36	48.10	35	94	33.67	192	410	154.26
6	Entertainment tax	105	233	4.34	15	54	0.01	19	45	1.85	15	34	0.29	9	15	2.61	163	381	9.10
7	State excise	56	74	36.34	19	27	0.99	29	31	0.10	18	21	1.76	19	22	12.89	141	175	52.08
8	Electricity duty	12	29	322.02	1	10	872.88	0	0	0.00	2	22	384.65	1	5	171.34	16	66	1,750.89
9	Lotteries	60	149	12.55	3	9	13.65	0	0	0.00	3	13	18.58	2	5	12.89	68	176	57.67
	Total	3,074	5,557	849.36	464	1,202	922.86	328	778	81.46	338	902	599.54	290	788	770.08	4,494	9,227	3,223.30

Note: IRs:- Inspection Reports

Obsr:- Observations

Amt.:- Amount