

CHAPTER IV: REVENUE RECEIPTS

GENERAL

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by the Government of Arunachal Pradesh during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

Table: 4.1*

(Rupees in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Revenue raised by the State Government					
	• Tax revenue	62.09	78.24	98.09	136.22	173.44
	• Non-tax revenue	202.36	297.17	656.92	772.01	511.25
Total		264.45	375.41	755.01	908.23	684.69
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	272.15	347.14	437.87	462.09	475.40
	• Grants-in-aid	1312.81	1869.62	1810.13	2485.64	3134.78
Total		1584.96	2216.76	2248.00	2947.73	3610.18
3.	Total revenue receipts of the State Government (1 and 2)	1849.41	2592.17	3003.01	3855.96	4294.87
4.	Percentage of 1 to 3	14	14	25	24	15.94

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 684.69 crore) was 15.94 *per cent* of the total revenue receipts against 23.55 *per cent* in the preceding year. The balance 84.06 *per cent* of receipts during 2009-10 was from the Government of India.

4.1.2 The following table presents the details of tax revenue raised during the period 2005-06 to 2009-10:

* All the figures pertaining to the year 2009-10 are provisional.

Table: 4.2

(Rupees in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/(-) decrease in 2009-10 over 2008-09
1.	Tax on sales trade etc.	47.69	61.64	77.06	105.67	130.23	+23.24
2.	State excise	9.51	10.98	11.60	16.60	23.79	+43.31
3.	Stamp duty and registration fees						
	Stamps – Judicial						
	Stamps – non-judicial	0.41	0.55	0.86	1.25	1.88	+50.4
	Registration fees						
4.	Taxes on vehicles	2.99	2.93	6.42	7.76	13.07	+68.43
5.	Land revenue	1.11	2.10	2.12	4.90	4.43	-9.59
6.	Others	0.38	0.04	0.03	0.04	0.04	0.00
	Total	62.09	78.24	98.09	136.22	173.44	+27.32

The reasons for variation were neither stated nor on records.

4.1.3 The following table presents the details of the non-tax revenue raised during the period 2005-06 to 2009-10:

Table: 4.3

(Rupees in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/(-) decrease in 2009-10 over 2008-09
1.	Interest Receipts	6.98	13.54	29.10	34.80	40.02	+ 15.00
2.	Dairy Development	0.03	0.03	0.03	0.03	0.02	- 33.33
3.	Other Non-tax Revenue	27.19	84.05	62.01	42.75	51.30	+ 20.00
4.	Forestry and Wild Life	13.71	9.03	8.57	12.50	9.99	- 20.08
5.	Mining Receipts Non-ferrous mining & Metallurgical Industries	24.94	47.60	45.82	42.95	57.56	+ 34.02
6.	Miscellaneous General services (including lottery)	5.57	15.85	45.56	20.26	11.39	- 43.78
7.	Power	88.77	119.05	458.06	609.74	329.27	- 46
8.	Medical and Public Health	0.17	0.19	0.37	0.28	0.23	- 17.86
9.	Co-operation	0.11	0.11	0.40	1.03	0.73	- 29.13
10.	Public Works	3.23	2.22	1.59	2.56	4.28	+ 67.19
11.	Police	1.51	2.03	1.22	1.97	1.13	- 42.64
12.	Other administrative services	30.15	3.41	4.19	3.13	5.33	+ 70.29
	Total	202.36	297.11	656.92	772.01	511.25	-33.78

The reasons for variation were neither stated nor on records.

4.1.4 Response of the departments towards audits

On the basis of inspections conducted in various departments of the State Government by sending audit parties from the office of the Accountant General each year, all the irregularities noticed during conduct of audit are discussed on the last day of audit with the head of office. During discussion, objections are dropped where possible while those which are of serious nature are incorporated in the Inspection Report and forwarded to the concerned office with a request to furnish reply within a specific period. Objections of very serious nature are developed into Draft Audit Paras (DAPs) and forwarded to the Secretary of the related Department requesting acceptance of the facts and figures and comments, if any to be communicated within six weeks. In case no reply is received the DAPs are included in the report of the CAG as Audit Paras.

Experience has been that Departmental Heads of the Government seldom furnish replies to the Audit findings.

4.1.5 Failure of Senior Officials to enforce accountability and protect the interest of the State Government

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

Inspection reports issued upto June 2010 disclosed that 784 paragraphs involving ₹ 427.97 crore relating to 287 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years.

Table: 4.4

	June 2008	June 2009	June 2010
Number of outstanding IRs	243	258	287
Number of outstanding audit observations.	589	661	784
Amount involved (Rupees in crore)	293.93	316.47	427.97

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned in Table 4.5.

Table: 4.5

(Rupees in crore)

Sl. No	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observation	Money value involved
1.	Finance	Taxes/VAT on Sales, trade etc	45	190	31.37
		Entry tax			
		Electricity duty			
		Entertainments tax, luxury tax, etc			
2.	Excise	State excise	64	113	41.76
3.	Revenue	Land revenue	28	93	95.25
4.	Transport	Taxes on motor vehicles	40	76	17.41
5.	Mines & Geology	Non-ferrous mining and Metallurgical industries	15	36	111.87
6.	Forest & Environment	Forest & Wildlife	92	263	107.63
7.	State Lotteries		3	13	22.68
Total			287	784	427.97

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 103 IRs issued upto December 2009. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

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

4.1.6. Departmental audit committee meetings

In order to expedite settlement of the outstanding audit observations contained in the IRs, departmental audit committees are constituted by the Government. These committees are chaired by the Secretaries and attended by the officers of the department concerned and Accountant General's office.

In order to expedite clearance of the outstanding audit observations, it is necessary that the audit committees meet regularly. During the years 2008-09 and 2009-10, no audit committee meeting was held, despite being requested. Thus, the concerned departments failed to take advantage of the audit committee mechanism set up.

4.1.7 Response of the departments to the draft audit paragraphs

The draft paragraphs are forwarded to the Secretaries of the concerned departments through demi official letters drawing their attention to the audit findings and requesting them to send their reply within six weeks. The fact that the replies from the departments had not been received is invariably indicated at the end of each paragraph included in the Audit Report.

Twenty one draft paragraphs proposed for inclusion in the Report for 2008-09 were forwarded to the Secretaries of the respective departments during June 2009 and October 2009. Besides, the Chief Secretary to the State Government was also requested to arrange for discussion of the issues raised in the draft audit paragraphs for inclusion of the views/comments of the Government in the Audit Report. Despite these efforts, no response was received on these draft paragraphs and consequently these had to be included in the Report without the response of the Government. During the current year 23 paragraphs have already been taken up with the Government. Replies are still awaited (November 2010).

4.1.8 Follow up on Audit Reports – summarised position

With a view to ensure accountability of the executive in respect of all the issues dealt with in various Audit Reports, the Shakhder Committee, appointed to review the response of the State Government to Audit Reports, recommended (March 1993), *inter alia*, that the concerned departments of the State Government should without waiting for the receipt of any notice or call from the Public Accounts Committee (PAC), submit *suo motu* replies on all paragraphs and reviews featuring in the Audit Reports within three months, and submit the action taken notes (ATN) in respect of the recommendations of the PAC within the dates as stipulated by the PAC or within a period of six months, whichever is earlier.

While accepting the recommendation (1996), the Government specified a time frame of three months for submission of *suo motu* replies by the concerned departments. The PAC specified the time frame for submission of ATN on their recommendations as one month upto 49th Report.

A review of the outstanding explanatory notes on the paragraphs included in the Report of the Comptroller and Auditor General of India for the years from 1988-89 to 2007-08 revealed that the concerned administrative departments were not complying with these instructions. As of November 2009, *suo motu* explanatory notes on 57 paragraphs of these audit reports were outstanding from various departments.

A review of five reports of the PAC containing recommendations on 19 paragraphs in respect of Forest, Finance and Excise Departments presented to the Legislature between September 2001 and March 2006 revealed that the concerned departments had failed to submit ATNs on the recommendations made by the PAC as mentioned below.

Table: 4.6

Year of the Audit Report	Paragraph numbers on which recommendations were made by the PAC but ATNs are awaited	Number of PAC report in which recommendations were made	Date of presentation of the report of the PAC to the State Legislature
1986-87	6.4, 6.6, 6.7 and 6.8	49 th Report	3 March 2003
1991-92	6.4, 6.5 and 6.6	44 th Report	21 September 2001
1994-95	6.4	44 th Report	21 September 2001
1995-96	6.4, 6.5 and 6.6	46 th Report	19 March 2002
	6.7, 6.8 and 6.10	48 th Report	-do-
1996-97	6.7	46 th Report	-do-
1997-98	6.3, 6.5 (i), (ii)	51 st Report	21 March 2006
1998-99	6.3.6 (a) and 6.5	51 st Report	-do-

Thus, due to the failure of the departments to comply with the instructions of the PAC, the objective of ensuring accountability remained unfulfilled.

The Government may consider taking effective steps against the defaulting departments including fixing responsibility to ensure accountability of the executive.

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

The following table depicts the position of paragraphs included in the 'Revenue receipts' chapter of the Audit Reports from 2001-02 onwards relating to the Government of Arunachal Pradesh in respect of **Geology and Mining Department**:

Table: 4.7

(Rupees in lakh)

Sl. No.	Year of Audit Report	Paragraph No.	Caption of the paragraph	Amount
1.	2001-2002	7.5	Loss due to unauthorised removal of coal	20.26
2.	2002-2003	6.18	Loss of revenue and short realisation	2.95 4.95
3.	Do	6.17	Short realisation/non-realisation of royalty	21.12
4.	Do	6.16	Non-realisation of additional royalty	83.14
5.	Do	6.15	Loss of revenue due to faulty agreement	175.00
6.	2004-2005	5.13	Loss of revenue due to execution of faulty agreement	50.16
7.	2005-2006	6.10	Short realisation of revenue	364.00
8.	Do	6.9	Short realisation of royalty	11.71
9.	Do	6.8	Non-levy of additional royalty	179.00
10.	2006-2007	6.10	Short realisation of royalty on boulders	4.15
11.	Do	6.9	Loss of revenue due to faulty clause in the agreement	17.06
12.	Do	6.8	Excess adjustment of royalty and non-realisation of additional royalty	40.51
13.	Do	6.7	Non-levy of additional royalty	327.00
14.	Do	6.6	Short realisation of royalty	887.00
15.	2007-2008	6.13	Short realisation of royalty on boulder	10.77
16.	Do	6.12	Short realisation of royalty	1546.00
17.	Do	6.11	Non-levy of additional royalty	3742.00
18.	2008-09	4.6	Non-levy of additional royalty	148.00
19.	Do	4.5	Short realisation of royalty	1428.00
Total				9062.78
Say ₹ 90.62 crore				

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

4.1.10 Position of Inspection Reports

The summarised position of inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on March 2010 are tabulated below.

Table: 4.8

(Rupees in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
2000-01	52	126	2.3	22	44	3.22	5	7	0.56	69	163	4.96
2001-02	69	163	4.96	28	46	10.27	4	8	0.65	93	201	14.58
2002-03	93	201	14.58	27	73	42.51	4	10	0.73	116	264	56.36
2003-04	116	264	56.36	27	91	16.44	6	13	0.32	137	342	72.48
2004-05	137	342	72.48	31	62	33.27	5	8	1.02	163	396	104.73
2005-06	163	396	104.73	33	63	45.3	2	3	1.1	194	456	148.93
2006-07	194	456	148.93	27	85	31.6	0	4	0.34	221	537	180.19
2007-08	221	537	180.19	25	63	39.1	0	1	0.2	246	599	219.09
2008-09	246	599	219.09	34	97	32.46	0	0	0	280	696	251.55
2009-10	280	696	251.55	33	75	41.03	0	0	0	313	771	292.58

No Audit Committee meetings were held during 2008-09 and 2009-10.

4.1.11 Recovery of revenue of accepted cases

During the years 2003-04 to 2008-09 the Government/departments accepted audit observations involving ₹ 66.93 crore of which only ₹ 7 lakh had been recovered till October 2010 as mentioned below:

Table: 4.9

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2003-04	23.05	0.27	0.01
2004-05	5.43	1.90	-
2005-06	8.69	6.91	0.06
2006-07	31.53	6.60	-
2007-08	112.38	51.25	-
2008-09	31.87	-	-
Total	212.95	66.93	0.07

Total recovery made as at the end of 2009-10 was not even one *per cent* of the accepted money value.

It is recommended that the Government may consider prescribing more stringent measures, including fixing of responsibility, for recovery of dues in the accepted cases in the interest of revenue.

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

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

The following table indicates the issues highlighted in the reviews on the **Transport, Land Management and Environment & Forest Departments** featured in the last 10 Audit Reports including the recommendations and action taken by the department on the recommendations accepted by it as well as the Government.

Table: 4.10

Year of Audit Report	Name of the review	Number of recommendations	Details of the recommendations accepted	Status
1999-2000	Receipts under Taxes on Motor Vehicle	Nil	Nil	Nil
2001-02	Assessment, levy and collection of land revenue	2	2	Nil
2003-04	Collection of forest receipts in Arunachal Pradesh	5	Nil	Nil
Total		7	2	-

During the period 1999-2000, 2001-02 and 2003-04 three reviews pertaining to Motor Vehicles, Land Management and Environment & Forest Departments were conducted which contained seven recommendations. Out of these only two were accepted. The position regarding the balance five recommendations is awaited.

It is recommended that the Government put in place a monitoring mechanism to ensure timely action on the recommendations accepted by the concerned departments in the interest of the revenue of the state.

4.1.13 Audit planning

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

During the year 2009-10, the audit universe comprised 124 auditable units, of which 24 units were planned and 27 units audited during the year 2009-10 which was 22 *per cent* of the total auditable units.

4.1.14 Results of audit

4.1.15 Position of local audit conducted during the year

Test check of the records of 27 units of commercial tax, State excise, motor vehicles, forest and other departmental offices conducted during the year 2009-10 revealed under assessments/short levy/loss of revenue aggregating ₹ 110.16 crore in 185 cases. The departments recovered ₹ 0.34 crore in six cases during 2009-10.

4.1.16 This Report

This report contains 20 draft paragraphs, selected from the audit detections made during the local audit referred to above, relating to short/non-levy of tax, duty and interest, penalty etc, involving financial effect of ₹ 48.61 crore. No replies to the draft paragraphs have been received (November 2010). These cases are discussed in the succeeding paragraphs from 4.2 to 4.21.

DRAFT PARAGRAPHS

STATE EXCISE DEPARTMENT

4.2 Non-realisation of renewal fee and penalty

Failure of the department to initiate action led to non-realisation of renewal fee of ₹ 27.17 lakh including penalty.

The Government of Arunachal Pradesh notified in May 1994 that licence fee of ₹ 1.5 lakh per annum shall be payable for operating a bonded warehouse or a wholesale vend. The rates of fine for delayed payments in respect of bonded warehouses were also enhanced to ₹ 100 and ₹ 75 for wholesale vends per day with effect from 15 February 2001. Further, the Arunachal Pradesh Excise Act, 1993 provides that the authority who granted any licence may cancel it if the prescribed annual fee payable by the licensee has not been paid.

During audit of the Commissioner of Excise, Arunachal Pradesh, Itanagar in August 2010, it was noticed that five bonded warehouses and ten wholesale vends had not renewed their licences in advance before the expiry of the validity period. No action was taken to cancel the licenses, instead the COE continued to issue import passes to the licensees. The irregular grant of passes without realisation of the licence fee not only violated the Excise Act but also resulted in non-realisation of revenue of ₹ 25.50 lakh. Besides, fine of ₹ 1.67 lakh was also leviable for default in payment of licence fee.

The case was reported to the department/Government in September 2010; reply has not been received (December 2010).

4.3 Non-realisation of establishment charges

Establishment charges of ₹ 11.28 lakh in respect of excise officials posted in different bonded warehouses were not realised.

Under the Arunachal Pradesh Excise Rules, 1994, the Collector shall employ such officers and establishment as the Excise Commissioner may direct, to the charge of a private warehouse. The licensee of the warehouse shall pay to the Government, in advance, a fee in cash equivalent to the establishment cost of such officers for three months as the Excise Commissioner may fix, and a monthly fee in cash equivalent to the monthly cost which the Excise Commissioner may fix, within seven days after the expiry of the month to which the fee relates. The cost of the establishment shall include the pay and allowances as well as the leave salary and pension contribution.

Test check of the records of the Excise Commissioner in July 2010 revealed that the establishment charges of two excise officials posted in two different warehouses at Naharlagun for the period from December 2007 to March 2010 were ₹ 11.28 lakh. However, the department had neither worked out the establishment charges nor

submitted any demand which resulted in non-realisation of the establishment charges of ₹11.28 lakh.

The case was reported to the department/Government in September 2010 but reply has not been received (December 2010).

4.4 Non-realisation of renewal fee and penalty

Failure of the department to initiate action against five retail licensees for non-renewal of licenses led to non-realisation of renewal fee of ₹ 6.40 lakh and penalty of ₹ 2.47 lakh.

Under the provisions of the Arunachal Pradesh Excise Rules 1994, a licence granted to a retail vendor shall expire after one year of the date of issue. Further, the Excise Department instructed in March 1996 that if any retail vendor fails to renew the licence on payment of renewal fee of ₹ 40,000 within the stipulated date, he shall be liable to pay, in addition to the renewal fee, a penalty of ₹ 50 per day for the period of default.

Test check of the records of the Superintendent of Excise, Ziro in July 2009 revealed that five retail licences were to be renewed on due dates falling between October 2004 and February 2009. The licensees did not renew their licences and continued their businesses. The Department also did not take any action to realise the renewal fee of ₹ 6.40 lakh and levy penalty of ₹ 2.47 lakh for non-payment of the renewal fee. This resulted in non-realisation of the renewal fees and penalty of ₹ 8.87 lakh.

The cases were reported to the department/Government in October 2009; reply has not been received (December 2010).

4.5 Loss of revenue

Failure of the department to realise licence fee and penalty before cancellation of five licences led to loss of revenue of ₹ 8.42 lakh.

Under the Arunachal Pradesh Excise Act, 1993 and Rules made thereunder, licence granted for dealing in India Made Foreign Liquor (IMFL) shall remain valid for one year from the date of issue. On expiry of its validity period, the licensee shall either return the licence or get it renewed on payment of the prescribed annual fee in advance. If he fails to get the licence renewed before the expiry of the validity period of licence, he shall be liable to pay penalty in addition to the fee, of a sum ranging from ₹ 25 to ₹ 100 per day for the period of default in payment of the fee.

Test check of the records of the Commissioner of Excise, Itanagar in July-August 2009 revealed that licences of one IMFL bonded warehouse, one beer bonded warehouse, two wholesale vends of IMFL and one wholesale vend of country liquor were valid upto different dates between July 2004 and July 2006. On expiry of the validity periods of the licences, the proprietors neither got their licences renewed nor returned the same to the issuing authority. The department did not initiate any action either to realise the prescribed fee and penalty of ₹ 11.42 lakh for non-renewal of the

licences or to take over the stock of IMFL/Country liquor for recovery of the dues. All the five licences were, however, cancelled between February 2007 and October 2007 without realising the Government revenue although security deposit of ₹ 3 lakh involved in the cases was forfeited. This resulted in loss of revenue of ₹ 8.42 lakh.

The case was reported to the department/Government in October 2009; their reply has not been received (December 2010).

4.6 *Short realisation of excise duty*

Failure to levy and collect excise duty at revised rates resulted in short realisation of ₹ 5.35 lakh.

The Government of Arunachal Pradesh in their notification dated 30 December 2009 enhanced the rate of excise duty on General and Premium brand of IMFL from ₹ 60 and ₹ 162 to ₹ 90 and ₹ 210 per case respectively. Similarly, the excise duty on beer and wine was enhanced from ₹ 8 and ₹ 90 to ₹ 18 and ₹ 120 per case respectively. The revised rates came into force with effect from 30 December 2009.

Test check of the permit/pass registers in respect of five bonded warehouses under the jurisdiction of the Commissioner of Excise, Itanagar (July 2010), revealed that 12,289 cases of General brand, 2,292 cases of Premium brand of IMFL and seven cases of wine relating to the period from 30 December 2009 to 2 January 2010 and 5,650 cases of beer relating to the period from 30 December 2009 to 4 January 2010 were allowed to be lifted on realisation of excise duty at the pre-revised rates instead of at the revised rates. This resulted in short realisation of excise duty of ₹ 5.35 lakh.

The case was reported to the department/Government in May 2010 but reply has not been received (December 2010).

GEOLOGY AND MINING DEPARTMENT

4.7 *Non-levy of additional royalty*

Failure of the department to initiate action against two lessees for delayed payment of royalty led to non-realisation of additional royalty of ₹ 45.61 crore.

The Petroleum and Natural Gas Rules, 1959 envisage that if any royalty is not paid by the lessee to the State Government within the time specified for such payment, the amount of such royalty shall be increased by an additional 10 *per cent* for each month or portion thereof during which such royalty remains unpaid.

Test check of the records of the Director, Geology and Mining (DGM), Arunachal Pradesh, Itanagar in September 2010 revealed that the State Government executed a lease agreement in September 1997 with a lessee (M/s. Oil India Limited) for extraction of crude oil. The agreement, *inter-alia*, stipulated that the lessee should pay royalty to the State Government within 30 days of the month to which the production related. The lessee extracted 35722.70 tons of crude oil between April 2009 and March 2010 for which royalty of ₹ 6.37 crore was paid between July 2009 and May

2010 after delays ranging between one and four months. For the delay in payment of royalty, additional royalty of ₹ 1.04 crore though leviable was not levied and recovered by the department. Thus, failure of the department to issue demand notice for payment of interest led to non levy of additional royalty of ₹ 1.04 crore.

Similarly, another lessee (M/s. Geoenpro Petroleum Limited) extracted 1,62,268.00 tons of crude oil involving royalty of ₹ 43.27 crore between April 2004 and March 2007 for which royalty of ₹ 8.57 crore was paid by the lessee and the balance royalty of ₹ 34.70 crore was paid belatedly between December 2006 and September 2007. For belated payment, additional royalty of ₹ 44.57 crore though leviable, was neither levied nor recovered from the lessee leading to non realisation of revenue of ₹ 44.57 crore.

The case was reported to the department/Government in September 2010 but reply has not been received (December 2010).

4.8 Short realisation of royalty on coal

There was short realisation of royalty of ₹ 18.16 lakh due to suppression of despatch of 15,132 metric tonnes of coal.

In Arunachal Pradesh, royalty on coal is collected by the Arunachal Pradesh Mineral Development and Trading Corporation Limited (APMDTCL), Itanagar and remitted to the Director, Geology and Mining (DGM), Itanagar through cheques deposited into the Government account.

Test check of the records of the DGM, Itanagar in September 2010 revealed that as per the return submitted by APMDTCL, 3506 metric tons (MT) of coal involving royalty of ₹ 4.21 lakh was extracted/despached by APMDTCL from the Namchik Coal Project, Kharsang during 2001-02. But on cross verification of records with that of the DGM, it was observed that though APMDTCL extracted 8064.88 MTs of coal in 2000-01, it did not file any return for that year. Similarly, the Company extracted 10,574.01 MTs of coal in 2001-02 but showed only 3506 MTs in its return for 2001-02. Thus, APMDTCL extracted a total quantity of 18,638.89 metric tonnes of coal during the period from April 2000 to March 2002 involving royalty of ₹ 22.37 lakh. Therefore, suppressing the actual extraction by 15,132 MTs in their return submitted to the DGM, APMDTCL paid less royalty of ₹ 18.16 lakh.

The case was reported to the department/Government in September 2010; reply has not been received (December 2010).

It is recommended that the Department should prescribe a mechanism for cross check of its records with that of APMDTCL to ensure that extraction of coal is properly reflected in the returns.

4.9 Short realisation of royalty

Application of incorrect rate on 2,62,531.95 MT of coal led to short realisation of royalty ₹ 13.13 lakh.

In exercise of the powers conferred under the Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act), the Government of India, Ministry of Coal revised the rate of royalty per metric tonne (PMT) of coal from ₹ 165 to ₹ 130 plus five *per cent* of pit head price of coal w.e.f. 1 August 2007. The pit head price of 'B' grade coal of Arunachal Pradesh is ₹ 1,050 PMT. Based on the minimum notified price of Rs.1,050 PMT, the revised rate of royalty PMT of the above category of coal works out to Rs.182.50.

Test check of the records of the Director, Geology and Mining (DGM), Itanagar in September 2010 revealed that the revised rate of royalty for all grades of coal was fixed at ₹ 177.50 per MT and royalty for 'B' grade coal was not fixed separately.

The records of the DGM, Itanagar were cross checked with those of Arunachal Pradesh Mineral Development and Trading Corporation Limited (APMDTCL), Itanagar and it was found that 2,62,531.95 MT of 'B' grade coal was despatched between February 2009 and June 2010 and royalty of ₹ 4.66 crore was realised at the rate of ₹ 177.50 per MT instead of ₹ 4.79 crore at the correct rate of ₹ 182.50 per MT. Thus, due to application of lower rate of royalty there was short realisation of royalty of ₹ 13.13 lakh.

The case was reported to the department/Government in September 2010 but reply has not been received (December 2010).

STATE LOTTERY DEPARTMENT

4.10 Non-levy of interest

For delayed payment of CPD money interest of ₹ 8.20 lakh, though leviable, was not levied.

As per the agreement entered on 27 February 2002 between the State Government and the distributors, the latter were to deposit the Cost of Participation in the Draw (CPD) money within 30 days after the draw was held. If a distributor failed to pay the amount within the due date, interest @three *per cent* per annum up to a delay of 180 days and @ six *per cent* per annum thereafter was leviable.

During audit of the records of the Commissioner, State Lottery Department, Arunachal Pradesh, Itanagar in August 2009, it was noticed that a distributor was liable to pay CPD money amounting to ₹ 33.41 lakh for draws held between 17 August 2004 and 18 November 2004. The distributor delayed in depositing the amount for a period ranging from 29 days to 1771 days beyond the due date(s). For belated payment of CPD money, interest of ₹ 8.20 lakh leviable was not levied and recovered. This resulted in non-levy of interest of ₹ 8.20 lakh.

The case was reported to the department/Government in October 2009; reply has not been received (December 2010).

4.11 Non-realisation of licence fee

Inaction of the department to levy licence fees on 10 retailers led to non-realisation of revenue of ₹ 2.62 lakh.

Under the provisions of the Arunachal Pradesh State Lottery (amended) Rule; 2005, the retailers dealing with lotteries (including on-line lotteries) of other State Governments within the State of Arunachal Pradesh, were liable to pay a lump sum amount of ₹ 2,000 as licence fee per terminal per month with effect from 24 November 2005.

While auditing the records of the Commissioner, State Lottery Department, Arunachal Pradesh in August 2009, it was noticed that 10 retailers of five¹ districts were engaged in the business of dealing with other State Government lotteries. The retailers neither paid licence fee for the period from November 2007 to July 2009 nor was any action taken by the department to levy and realise it. Thus, laxity on the part of the department led to non-realisation of licence fee of ₹ 2.62 lakh.

The case was reported to the department/Government in October 2009 but reply has not been received (December 2010).

TAXATION DEPARTMENT

4.12 Non-realisation of entry tax

Failure to collect entry tax from 185 vehicles before registration resulted in non-realisation of entry tax of ₹ 1.17 crore.

Under the provisions of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, entry tax at the rate of 12.5 *per cent* shall be paid on the import of a motor vehicle which is not registered in Arunachal Pradesh, at the time of registration of the motor vehicle. In October 2005, the Commissioner of Taxes, Arunachal Pradesh requested all the Deputy Commissioners of the respective districts to ensure payment of the entry tax prior to the registration of the imported vehicles.

The records of the DTO, Tezu were cross checked with those of the Superintendent of Taxes, Tezu in February 2010 and it was found that 185 new motor vehicles valued at ₹ 9.32 crore imported from outside the State were registered between April 2005 and December 2009 without collecting the entry tax amounting to ₹ 1.17 crore.

The case was reported to the department/Government in May 2010 but reply has not been received (December 2010).

¹ West Siang, Changlang, Upper Siang, Upper Subansiri and Lower Subansiri District.

4.13 Evasion of tax by unregistered dealers

Non-registration of five dealers by the assessing officers led to evasion of tax of ₹ 28.34 lakh for which maximum penalty of ₹ 23.16 lakh was also leviable.

Under the provision of the Arunachal Pradesh Sales Tax (APST) Act, 2002, a dealer liable to pay tax shall not carry on business as a dealer unless he is registered and possesses a certificate of registration. The Act empowers the Assessing Officer to register a dealer if he fails to apply for registration. The Act further provides that the tax payable by a dealer in respect of any sale or supply of goods to a Government department shall be deducted at source in the prescribed manner at the specified rate. If a dealer being liable to pay tax fails to get himself registered he is liable to pay penalty, in addition to tax payable by him, of a sum not exceeding the amount of assessed tax.

Further, under the APST Act, a dealer who is liable to pay tax shall not carry on business unless he has been registered and possesses a certificate of registration. Where a person who is required to be registered under the Act has failed to apply for registration within one month from the day on which the requirement arose, the person is liable to pay, by way of penalty, an amount equal to ₹ 1,000 per day subject to a maximum of ₹ one lakh. The Act, however, did not provide deduction of tax at source in respect of any sale or supply of goods to a department of the Government till March 2007.

4.13.1 The records of the ST, Zone-I, Naharlagun were cross verified with those of two² departments of the State Government in May 2009 and it was found that four unregistered dealers sold taxable goods like medicines and medical equipments valued at ₹ 3.55 crore in March 2005 but these dealers had neither applied for registration nor were they registered by the AO as required under the Act. The amount of tax was also not deducted by the purchasing Government departments. Thus, non-detection of the dealers by the AO coupled with non-deduction of tax at source by the purchasing Government departments resulted in evasion of tax of ₹ 23.16 lakh. Besides, penalty upto ₹ 23.16 lakh was also leviable.

4.13.2 The records of the ST, Zone-I, Naharlagun were also cross checked with those of the Director of Tourism, Arunachal Pradesh, Itanagar in May 2009, and it was noticed that one unregistered dealer supplied taxable goods valued at ₹ 41.47 lakh during January 2006. The dealer had neither applied for registration nor this fact was detected by the AO which resulted in evasion of tax of ₹ 5.18 lakh.

The cases were reported to the department/Government in October 2009 but reply has not been received (December 2010).

² Director of Health Services, Naharlagun and Executive Engineer, Electrical Division, Ziro.

4.14 Non-levy of tax and penalty for misuse of 'C' form

Two dealers purchased cement of ₹ 144.62 lakh and evaded tax of ₹ 18.08 lakh. Besides, penalty of ₹ 27.12 lakh was also leviable for misuse of 'C' form.

Under the Central Sales Tax (CST) Act, a registered dealer may purchase goods from a registered dealer of another State at a concessional rate by furnishing prescribed declaration in form 'C'. If a person being a registered dealer, falsely represents when purchasing any class of goods, that goods of such class are covered by his certificate of registration, he is liable to pay penalty not exceeding one and half times the amount of tax which would have been levied in lieu of the prosecution.

The records of the Superintendent of Taxes, Zone I, Naharlagun and Zone II, Itanagar were cross verified with those of the Superintendent of Taxes, Shillong in May 2009, and it was noticed that the two dealers dealing in hardware, glasses, plywood and electrical goods imported cement valued at ₹ 1.45 crore between April 2006 and March 2008 which was not included in their certificate of registration. The dealers neither submitted any return nor paid the applicable tax for the aforesaid transaction. Thus, the dealers concealed turnover of at least ₹ 1.45 crore and evaded tax of ₹ 18.08 lakh. Besides, the dealers were also liable to pay penalty of ₹ 27.12 lakh (maximum) for the same. No notice was issued by the AO to the dealers in this regard.

The cases were reported to the department/Government in October 2009 but reply has not been received (December 2010).

4.15 Short levy of interest

Non-inclusion of interest in the requisition sent to the recovery officer resulted in short levy of interest of ₹ 14.46 lakh.

Under the provisions of the APGT Act, where the amount of tax, interest, penalty, composition money or other sum payable remains unpaid, it may be recovered as an arrear of land revenue.

The records of the Superintendent of Taxes (ST), Tezu were test checked in February 2009 and it was noticed that a dealer was assessed in December 2007 and was levied tax, interest and penalty of ₹ 97.04 lakh for the years 2005-06 and 2006-07. The dealer, however, did not pay the above amount although demand notices were served by the Assessing Officer. Since the dealer failed to pay the amount of tax, interest and penalty despite repeated notices, the case was referred to the Recovery Officer (RO) in March 2009 for recovering ₹ 97.04 lakh as arrears of land revenue. The interest of ₹ 14.46 lakh leviable upto 1 March 2009 i.e. the date of sending the case to the RO from the date of assessment, was, however, not included in the requisition sent by the AO to the RO. This resulted in short levy of interest of ₹ 14.46 lakh.

The case was reported to the department/Government in June 2009 but reply has not been received (December 2010).

4.16 *Concealment of purchase*

Failure of the assessing officer to detect import of taxable goods of ₹ 74.84 lakh led to evasion of tax of ₹ 5.54 lakh; besides, interest of ₹ 3.70 lakh and penalty of ₹ 5.80 lakh was additionally leviable.

Under the APGT Act, if a dealer has evaded in any way the liability to pay tax, he is liable to pay interest for non payment of tax and penalty of a sum of ₹ one lakh or the amount of tax evaded, whichever is greater, in addition to the tax payable by him.

While auditing the records of the ST, Zone I, Naharlagun, Zone II, Itanagar and Pasighat between May 2009 and March 2010, it was noticed that three registered dealers disclosed taxable purchases of ₹ 18.01 lakh between April 2005 and March 2007 in course of inter-State trade.

The assessment records of the aforesaid dealers were also cross verified with those of three dealers registered in Guwahati, Bongaigaon and Tezpur (Assam) respectively and it was found that the Arunachal based dealers had purchased taxable goods like electrical items, lubricants and motor cycles valued at ₹ 74.84 lakh during the aforesaid period. These dealers filed self assessed returns for 2005-06 and 2006-07, which were accepted as such by the department. Thus, the dealers concealed taxable purchase of ₹ 56.83 lakh and evaded the liability to pay tax of ₹ 5.54 lakh. Besides, interest of ₹ 3.70 lakh and penalty of ₹ 5.80 lakh were also leviable.

The cases were reported to the department/Government between October 2009 and May 2010 but reply has not been received (December 2010).

4.17 *Evasion of tax by an unregistered dealer*

Non-registration of a dealer under APGT Act led to evasion of tax of ₹ 12.30 lakh.

Under the CST Act any dealer liable to pay tax under the sales tax laws of the appropriate State, shall apply for registration in the prescribed form.

Under the APGT Act, if a dealer defaults in making payment of tax he is liable to pay interest ranging between 12 to 24 *per cent* per annum for the period of default on the amount of tax paid short. In addition, the dealer is also liable to pay penalty equal to the amount of tax remaining unpaid.

Test check of the records of ST, Roing in March 2010 revealed that a dealer registered under the CST Act imported motor cycle and spare parts valued at ₹ 45.13 lakh at concessional rate, for resale within the State by utilising 14 'C' forms between April 2008 and December 2009. It was observed that the dealer was neither registered under the APGT Act nor did he pay any tax. The dealer furnished the utilisation statement of 'C' forms but the Assessing Officer (AO) initiated no action to register the dealer and realise the tax under APGT Act. Such laxity on the part of the AO led to evasion of tax of at least ₹ 5.64 lakh. Besides, interest of ₹ 1.02 lakh and penalty of ₹ 5.64 lakh are also leviable for carrying on business without registration.

The case was reported to the department/Government in May 2010 but reply has not been received (December 2010).

4.18 Short levy of entry tax

Entry tax of ₹ 4.87 lakh was levied and realised against ₹ 15.20 lakh leviable leading to short levy of tax ₹ 10.33 lakh.

The APGT Act, 2005 states that every person who is an importer, shall be liable to pay tax on every entry effected by or for him of goods for consumption, use or sale in local area of Arunachal Pradesh other than a non-taxable import.

While auditing the records of Superintendent of Taxes, Tezu in February 2010, it was noticed that 48 dealers imported taxable goods valued at ₹ 1.22 crore between April 2008 and March 2009. Entry tax of ₹ 15.20 lakh was leviable in these cases against which ₹ 4.87 lakh only was levied/realised. This resulted in short realisation of entry tax of ₹ 10.33 lakh.

The case was reported to the Department/Government in May 2010 but reply has not been received (December 2010).

4.19 Non-levy of penalty

Penalty of ₹ 5.60 lakh was not levied and realised from 21 dealers who did not furnish returns within the due date.

Under the APGT Act, if a registered dealer fails to furnish any return by the due date, he is liable to pay penalty of Rs.100 per day for the default subject to a maximum of ₹ 10,000.

While auditing the records of the Superintendent of Taxes, Teju in February 2010, it was noticed that 21 dealers did not furnish their returns for periods falling between April 2005 and March 2009. For non-submission of the returns, though the dealers were liable to pay penalty of ₹ 5.60 lakh, the Assessing Officer did not take any action to levy and realise the penalty. Thus, failure of the Department to monitor such cases resulted in non-levy of penalty of ₹ 5.60 lakh.

The case was reported to the department/Government in May 2010 but reply has not been received (December 2010).

4.20 Under assessment of tax

Non-inclusion of excise duty in sale price of IMFL led to under assessment of tax of ₹ 3.94 lakh and interest of ₹ 2.05 lakh.

Under the APGT Act, 'sale price' means the amount paid or payable as valuable consideration for any sale. In May 2005, the Commissioner of Taxes, Arunachal Pradesh clarified that all duties and fees levied under the Arunachal Pradesh Excise Act shall form part of the sale price. In Arunachal Pradesh, IMFL is taxable at the rate of 20 per cent. Interest as per the APGT Act is leviable for delay in payment.

During test check of the records of the Superintendent of Taxes, Ziro in July 2009 it was noticed that two wholesale vendors sold 13,736 cases of IMFL between May 2006 and May 2007 and disclosed sale price of ₹ 1.06 crore and paid tax of ₹ 21.20 lakh on the turnover without including the element of excise duty of ₹ 19.72 lakh collected from the purchasers. Since excise duty forms part of the sale price as per the aforesaid clarification, the sale price should have been determined at ₹ 1.26 crore instead of ₹ 1.06 crore. This resulted in under assessment of tax of ₹ 3.94 lakh. Besides interest of ₹ 2.05 lakh was also leviable.

The case was reported to the department/Government in October 2009 but reply has not been received (December 2010).

4.21 Loss of revenue due to non-registration of Government department as a dealer

Non-registration of a State Government department resulted in non-realisation of revenue of ₹ 2.42 lakh and penalty of ₹ one lakh on sale of sand and stone.

Under the APGT Act, a dealer means a person who buys, sells, supplies or distributes goods for cash or deferred payment and includes all departments of the State Government if they sell, supply or distribute goods in the course of specified activities. Further, under Section 19(i) of the Act, every dealer liable to pay tax is required to be registered under the Act. If any dealer fails to register himself he is liable to pay penalty of ₹ 1,000 per day subject to a maximum of ₹ one lakh. In Arunachal Pradesh, sand and stone is taxable at the rate of 12.5 per cent.

Test check of the records of the Assistant Mineral Development Officer (AMDO), Pasighat in March 2010 revealed that the Mineral Department sold sand and stone valued at ₹ 19.37 lakh to 37 dealers within the state between April 2005 and June 2008. This information was cross verified with the records of the Taxation Department, Pasighat and it was found that neither the AMDO nor the purchasing dealers were registered. The AO also had not taken any action for their registration as required under the Act which resulted in non-realisation of revenue of ₹ 2.42 lakh and penalty of ₹ one lakh.

The case was reported to the department/Government in May 2010 but reply has not been received (December 2010).