

PREFACE

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

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising taxes on sales, trade etc./value added tax, stamp duty and registration fee, state excise duty, taxes on vehicles, passengers and goods tax, agriculture (purchase tax) and non-tax receipts of the State.

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

OVERVIEW

This Report contains 23 paragraphs including four Performance Audit, relating to non/short levy of taxes, duties, interest and penalty etc., involving tax effect of ₹ 324.73 crore. Some of the major findings are mentioned below:

1. General

- The total revenue receipts of the State Government for the year 2010-11 were ₹ 25,563.68 crore. Revenue raised by the Government during the year was ₹ 20,211.31 crore, comprising tax revenue of ₹ 16,790.37 crore and non-tax revenue of ₹ 3,420.94 crore. The State Government also received ₹ 2,301.75 crore as State's share of divisible Union taxes and ₹ 3,050.62 crore as grants-in-aid from the Government of India. The increase in Revenue Receipts over the previous year by ₹ 4,571.02 crore (22 *per cent*) was mainly on account of increase in the State's own tax and non-tax revenues.

(Paragraph 1.1.1)

- Test check of the records of the Sales Tax/Value Added Tax, Stamp Duty and Registration fee, State Excise, taxes on goods and passengers, Taxes on Vehicles, Other tax and Non-Tax receipts conducted during the year 2010-11 revealed underassessments/short levy/non-levy/loss of revenue aggregating ₹ 1,052.85 crore in 4,662 cases. During the year 2010-11, the Departments accepted underassessment of ₹ 222.79 crore in 2,176 cases. Of these, the Department recovered ₹ 13.77 crore in 519 cases.

(Paragraph 1.5.1)

2. Sales Tax/Value Added Tax

Excise and Taxation Department

A Performance Audit on **Exemption/deferment and Concessions of Sales Tax to Industrial Units** revealed the following:

- No database was maintained either by the Industries Department or by the Excise and Taxation Department regarding units availing benefit of tax concessions. The Excise and Taxation Department had no database regarding tax benefits availed, tax recovered and due from units availing tax concession. An evaluation study of the Scheme was not carried out to evaluate the impact of tax concessions on growth of industries and employment.

(Paragraph 2.2.7)

- We found that agro based and electronic/software industries did not set up units in the State despite attractive tax concessions of 250 and 300 *per cent* of fixed capital investment offered to them by the State Government under the Scheme.

(Paragraph 2.2.7.1)

- We noticed in four offices that 17 units after availing exemption had closed business and the Department had not recovered ₹ 20.64 crore of exemption/deferment benefits availed by them.

(Paragraph 2.2.8)

- Department had not kept records of repayment dues of exemption units.

(Paragraph 2.2.9)

- The Department relaxed control measures on exemption units by belated assessments, the delays ranging from seven to 98 months.

(Paragraph 2.2.10)

- The Department granted excess benefit of tax deferment of ₹ 4.47 crore to an expansion unit treating it as a new unit.

(Paragraph 2.2.11)

- Interest free loan of ₹ 2.91 crore from nine units in three districts and interest of ₹ 48.53 lakh on delayed payments from two dealers in two districts were also not recovered.

(Paragraph 2.2.12.1 and 2.2.12.2)

- Incorrect allowance of deduction of ₹ 3.35 crore treating the sale of High Density Polyethylene (HDPE) fabric as tax free goods resulted in non-levy of VAT of ₹ 33.49 lakh.

(Paragraph 2.2.15)

- Breach of conditions regarding maintenance of production levels in 36 cases were seen resulting in non-recovery of incentives of ₹ 130.82 crore due.

(Paragraph 2.2.19.1)

- The Department neither raised nor recovered the demand of benefit availed and interest of ₹ 3.87 crore due from two dealers in Gurgaon/Rewari who had discontinued their manufacturing activities during currency period of exemption/deferment.

(Paragraph 2.2.19.2)

A Performance Audit on **Cross verification of Declaration Forms used in Inter State Trade** revealed the following:

- The Department had not put in place a system for verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS Website before allowing exemptions/concession of tax.
- Exemptions/concessions were allowed in 47 transactions for the assessment years 2006-07 and 2007-08 against fake 'C' Forms which were not issued to the dealers, resulting in short levy of CST of ₹ 1.30 crore.

(Paragraph 2.3.12.1 and 2.3.12.2)

- Assessing Authority did not scrutinise the claims for concessional tax and cross verify the transactions as required under the Departmental instructions. This resulted in incorrect allowance of branch transfers on 'F' Forms, which consequently led to evasion of VAT of ₹ 4 lakh. Additionally, penalty was also leviable for evasion of tax.

(Paragraph 2.3.12.3)

- Non-verification of declaration Form 'C' by the Department resulted in suppression of sale of ₹ 2.88 crore involving underassessment of tax of ₹ 23.09 lakh. Besides, penalty was also leviable for mis-declarations.

(Paragraph 2.3.13)

- In absence of a system to check utilisation statements of Declaration Forms, Mismatches between the selling and purchasing dealers as per the forms were not detected by the Assessing Authorities. Evasion of tax in these cases cannot be ruled out.

(Paragraph 2.3.14)

Compliance Deficiencies in VAT

- Incorrect allowance of Input Tax Credit (ITC) including ITC on the material transferred to expansion units which were also availing the benefit of deferment resulted in non/short levy of VAT of ₹ 7.52 crore including interest.

(Paragraph 2.4.1.1)

- Due to non-verification of the purchases of 25 dealers which were declared dealers for allowing ITC at Nil rate and to take action as per directions of JETCs (Range) resulted in incorrect allowance of ITC of ₹ 1.40 crore.

(Paragraph 2.4.2)

- Incorrect allowance of ITC of ₹ 16.22 lakh, on purchases of petroleum products for use as fuel, resulted in incorrect allowance of ITC of ₹ 29.56 lakh, including interest.

(Paragraph 2.4.3)

- Incorrect allowance of deductions of High Sea Sales resulted in underassessment of VAT of ₹ 70.13 crore.

(Paragraph 2.5.1.1)

- The dealer (contractor) after purchasing the material from outside the State, supplied the same worth ₹ 438.71 crore directly to the sites of the works through their accounts. The assessing authorities allowed the claim of exempted (transit) sales against E-I or E-II and 'C' forms incorrectly which resulted in underassessment of VAT of ₹ 54.84 crore.

(Paragraph 2.5.1.2)

- Incorrect allowance of deductions of ₹ 26.98 crore treating the sale of HDPE fabrics as tax free goods resulted in non-levy of VAT of ₹ 2.06 crore (including interest).

(Paragraph 2.5.2.1 and 2.5.2.2)

- Failure of the assessing authorities to cross verify the transactions of sales and purchases from the Departmental authorities within Haryana before finalising the assessments led to evasion of VAT amounting to ₹ 1.21 crore.

(Paragraph 2.5.4)

3. State Excise

Excise and Taxation Department

A Performance Audit on **Receipts from State Excise Duty** revealed the following:

- The Department did not take action to recover the differential amount of license fee from 43 defaulting allottees of retail liquor outlets, after re-auction of vends at the risk and cost clause of the contract conditions, depriving the Government of revenue of ₹ 6.31 crore.

(Paragraph 3.2.10)

- The Department did not take action under the Rules to recover license fee from the defaulting 119 licensees of retail liquor outlets resulting in short recovery of license fee and interest of ₹ 4.65 crore.

(Paragraph 3.2.11.1)

- Non-levy of interest on delayed payment of monthly instalment of license fee by 576 licensees for the period April 2006 and December 2009, resulted in loss of ₹ 2.77 crore to Government exchequer.

(Paragraph 3.2.11.2)

- The Department did not initiate any action to recover penalty of ₹ 5.67 crore imposed on illicit country liquor and Indian Made Foreign Liquor by auctioning the confiscated vehicles. This inaction defeated the objectives of the penal provisions.

(Paragraph 3.2.12.1)

- The Department did not impose and recover minimum penalty of ₹ 88.53 lakh on confiscated country liquor defeating the objectives of the penal provisions.

(Paragraph 3.2.12.2)

- Penalty of ₹ 69.21 lakh was not recovered on short lifting of 2.20 lakh proof litres of liquor quota by the licensees.

(Paragraph 3.2.13.1 to 3.2.13.3)

- Lack of action to recover the security and additional security from 97 licensees resulted in short deposit of ₹ 1.18 crore.

(Paragraph 3.2.16.2)

4. Stamp Duty and Registration Fee

Revenue Department

- Due to misclassification of instruments by the Department, Stamp duty of ₹ 3.99 crore was short levied/realised.

(Paragraph 4.2.1)

- Stamp duty of ₹ 69.10 lakh was short levied on sale deeds of plots with an area less than 1,000 square yards due to application of incorrect rates of agriculture land instead of residential land.

(Paragraph 4.3.1)

- Suspected misappropriation of stamp duty of ₹ 13.38 lakh in Ballabgarh and Faridabad stamp offices was noticed on documents registered but differential stamp duty shown to be recovered through receipt book and not shown as deposited in Daily Collection Register.

(Paragraph 4.3.2)

5 Motor Vehicle Tax

A Performance Audit on the **Computerisation in Motor Vehicle Department** revealed the following:

- VAHAN and SARATHI had been implemented in 72 out of 76 locations in the State. Enforcement module had not been implemented anywhere in the State. Smart cards for registration and licences were not issued at any location.

(Paragraphs 5.2.9)

- Due to lack of IT strategy defining a time frame for implementation of the project in a complete manner, the Department failed to fully utilise the processing capabilities available in the system.

(Paragraph 5.2.10.1)

- Citizen centric services for online downloading and submission of forms, online appointments for driving tests, making payments etc. were not introduced with the result that citizens had to depend on commission agents for these services.

(Paragraph 5.2.10.7)

- Generation of cashbook through faulty customised reports facilitated short deposit of revenue amounting to ₹ 8.20 lakh in the Government account as seen in Rohtak district. In Faridabad, local software was used with no linkage with the VAHAN Application, defeating the

purpose and advantage of VAHAN. In Gurgaon dual databases in VAHAN resulted in mismatches and non-integration of the database.

(Paragraphs 5.2.11.1 to 5.2.11.3)

- Delay in mapping revision in road tax rates in VAHAN software resulted in estimated loss of ₹ 1.26 crore.

(Paragraphs 5.2.12.1)

- Inadequate validation checks resulted in registration of vehicles with identical engine numbers/chassis numbers with the result that the objective of maintaining reliable data in State and National Registers was not achieved.

(Paragraph 5.2.13.1 to 5.2.13.3)

- Out of 15.45 lakh records, 2.91 lakh records had no valid vehicle insurance detail rendering more than 18 *per cent* of the data redundant. There were a number of cases of registration of two or more vehicles with common insurance cover note number.

(Paragraph 5.2.13.5)

- Due to absence of inbuilt input validation controls, the SARATHI software did not block the invalid data and facilitated issue of licences to persons below the age of 18 years, double issue of driving licences, issue of driving licence before the prescribed time limit of 30 days from the issue of learning licence and other mistakes in issue of licence.

(Paragraph 5.2.14)

- There was no documentation of modifications made to the application software, user requirement specification, system design etc. Business continuity planning and training needs were not adequately addressed.

(Paragraph 5.2.15.1)

- Token tax of ₹ 22.75 lakh was not demanded by 10 Regional Transport Authorities from the owners of stage carriage bus operators for the different periods between April 2008 to March 2010.

(Paragraph 5.4.1.1)

6. Other tax and Non-tax Receipts

Mines and Geology Department

- Royalty and interest of ₹ 11.79 lakh in respect of 55 brick kiln owners was not recovered.

(Paragraph 6.2.1)

EXECUTIVE SUMMARY – CHAPTER - II

Increase in tax collections	In 2010-11, the collections of Sales Taxes (VAT) revenue increased by 22.69 <i>per cent</i> over the previous year, which was attributed by the Department to increase in arrear collections.
Very low recovery by the Department on the observations pointed out by us in earlier years	During the period 2005-06 to 2009-10, we had pointed out under assessments/non/short levy of tax etc., with revenue implication of ₹ 1,238.43 crore in 4,696 cases. Of these, the Department/Government accepted audit observations in 595 cases involving ₹ 46.42 crore but recovered only ₹ 4.42 crore in 322 cases. We observed that the recovery in respect of accepted cases during the period 2005-06 to 2009-10 was only 10 <i>per cent</i> .
Results of audits conducted by us in 2010-11	<p>In 2010-11, we test checked the records of 32 units relating to taxes on Sales Tax/Vat and found underassessments/non/short levy of tax/penalty etc. involving ₹ 976.56 crore in 775 cases.</p> <p>The Department accepted underassessments/non/short levy of tax/penalty and other deficiencies of ₹ 149.39 crore in 182 cases, of which 27 cases involving ₹ 141.19 crore were pointed out by us during the year 2010-11 and the rest in earlier years. The Department recovered ₹ 1.67 crore in 54 cases during the year 2010-11 which included ₹ 9.78 lakh in five cases for the year 2010-11.</p>
What we have highlighted in this Chapter	<p>In this Chapter we present the findings of two Performance Audits- “Exemptions/Deferment and concessions of Sales Tax to Industrial Units” and “Cross verification of Declaration Forms used in Interstate Trade” and illustrative cases of ₹ 147.03 crore selected from observations noticed during our test check of records relating to assessments and collection of VAT/Sales Tax in the office of the DETC’s where we found that the provisions of the Acts/Rules were not observed by the assessing officers.</p> <p>In the Performance Audit on Exemption/Deferment and concessions of Sales Tax to Industrial Units wherein we have focused on Rule 28C of the Scheme, we have pointed out that the State Government did not have a database relating to the units who had availed benefits under the Scheme, taxes due from them and taxes paid. Many units had closed down business after availing benefits of the Scheme and some units had not paid the taxes due as per terms and conditions of the Scheme.</p> <p>In the Performance Audit relating to Declarations Forms used in Inter State Trade, we have pointed out several systems and compliance deficiencies for want of an effective system of cross verification of interstate transactions governed by the CST Act/ Rules, causing Revenue loss to the State Government.</p>
Our conclusions	The deficiencies pointed out and recommendations made by us in both the Performance Audits need to be acted upon for improving the Internal Controls and Systems relating to the Schemes/ CST Act and Rules.

EXECUTIVE SUMMARY- CHAPTER III

Marginal increase in tax collection	In 2010-11, the collections of receipts from State Excise Duty (SED) increased by 14.89 <i>per cent</i> over the previous year, which was attributed by the Department to increase in licence fee and quota of liquor.
Internal audit not conducted	Audit of the 12 units has not been conducted due to shortage of staff in internal audit wing. This resultantly had its impact in terms of weak internal control in the Department leading to subsequent leakage of revenue. It also led to the omission on the part of Deputy Excise and Taxation Commissioner (DETC) Excise remaining undetected till we conducted our audit.
Very low recovery by the Department and observations pointed out by us in earlier years	During the period 2005-06 to 2009-10, we had pointed out non/short recovery of licence fee, non levy of penalty etc. with revenue implication of ₹ 68.80 crore in 1,801 cases. Of these, the Department/Government accepted audit observations in 602 cases involving ₹ 23.47 crore, but recovered only ₹ 1.09 crore in 98 cases. We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only five <i>per cent</i> .
Results of audits conducted by us in 2010-11	In 2010-11, we test checked the records of 33 units relating to State Excise Duty involving ₹ 25.18 crore in 179 cases. During the year 2010-11, the Department accepted underassessments and other deficiencies of ₹ 24.17 crore in 102 cases, of which 101 cases involving ₹ 24.01 crore had been pointed out during the year 2010-11 and the remaining in earlier years. The Department recovered ₹ 2.79 crore in two cases during the year 2010-11 which included ₹ 2.63 crore in one case for the year 2010-11.
What we have highlighted in this Chapter	In this Chapter we present a Performance Audit on receipts from State Excise Duty , illustrative cases of ₹ 21.60 crore selected from observations noticed during our test check of records relating to State Excise Duty in the office of the Excise and Taxation Commissioner (ETC) and DETCs (Excise) where we found that the provisions of the Acts/Rules were not observed. It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which are made available to us, the DETCs (Excise) were unable to detect these mistakes.
Our conclusion	It also needs to initiate immediate action to recover the non-realisation of State excise duty pointed out by us, more so in those cases where Department has accepted our contention.

EXECUTIVE SUMMARY- CHAPTER IV

Increase in tax collection	In 2010-11, the collections of receipts from Stamp Duty and Registration fee increased by <i>79 per cent</i> over the previous year, which was attributed by the Department to increase in number of transactions of immovable property.
Very low recovery by the Department on the observations pointed out by us in earlier years	During the period 2005-06 to 2009-10, we had pointed out non/short recovery of Stamp Duty due to misclassification, undervaluation of immovable properties etc. with revenue implication of ₹ 105.09 crore in 99,006 cases. Of these, the Department/Government accepted audit observations in 10835 cases involving ₹ 48.79 crore but recovered only ₹ 0.31 crore in 477 cases. The recovery position as compared to acceptance of objections was very low ranging from <i>0.45 per cent</i> to <i>1.15 per cent</i> .
Results of audits conducted by us in 2010-11	<p>In 2010-11, we test checked the records of 101 units relating to Stamp Duty and Registration fee involving ₹ 7.26 crore in 1,346 cases.</p> <p>During the year 2010-11, the Department accepted under assessments and other deficiencies of ₹ 5.78 crore involving 1,158 cases, of which 931 cases involving ₹ 5.60 crore had been pointed out during the year 2010-11 and the remaining in earlier years. The Department recovered ₹ 17.63 lakh in 227 cases during the year 2010-11 relating to previous years.</p>
What we have highlighted in this Chapter	<p>In this Chapter, we present illustrative cases of ₹ 5.49 crore selected from observations noticed during our test check of records relating to Stamp duty and Registration fee in the office of sub registrars (SRs)/Joint Sub Registrar (JSRs) where we found that the provisions of the Acts/Rules were not observed. In addition, we have pointed out misappropriation of stamp duty in offices of SR Ballabgarh and Faridabad.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports or the past several years but the Department has not taken corrective action despite switching over to IT enabled system in all SRs and JSRs. We are also concerned that though these omissions were apparent from the record which was made available to us, the SRs and JSRs were unable to detect these mistakes.</p>
Our conclusion	The Department needs to initiate immediate action to recover Stamp Duty and Registration fee pointed out by us, more so in those cases where Department has accepted our contention. It also needs to strengthen its internal audit.

EXECUTIVE SUMMARY - CHAPTER - V

<p>Increase in tax collection and arrears of passenger and goods tax</p>	<p>In 2010-11, the collections of receipt from Taxes on Motor Vehicles increased by 65 <i>per cent</i> over the previous year, which was attributed by the Department due to better checking by the enforcement staff and impounding of vehicles violating the provision of Motor Vehicle Act as well as revision of rates of road tax. However, the arrears of passenger and goods tax stood at 59.41 crore at the end of 31 March, 2011, of which ₹ 23.25 crore (39 <i>per cent</i>) were more than five years old and during the period 2006-11 the Department had recovered only 22 to 43 <i>per cent</i> of the arrears.</p>
<p>Internal audit not conducted</p>	<p>A separate Internal Audit System was set up for audit of receipts and expenditure of the Transport Department. There was shortfall in audit of 10 units of the offices of Deputy Excise and Taxation Commissioner (PGT) due to shortage of staff in internal audit wing. The Internal control mechanism was ineffective to the extent of irregularities as pointed out by us, remaining undetected.</p>
<p>Very low recovery by the Department and observations pointed out by us in earlier years</p>	<p>During the period 2005-06 to 2009-10, we had pointed out non/short recovery of passenger tax/ token tax and motor vehicles taxes with revenue implication of ₹ 67.55 crore in 2,07,318 cases. Of these, the Department/Government accepted audit observations in 79,717 cases involving ₹ 38.35 crore but recovered only ₹ 1.70 crore in 281 cases. We observed that the recovery in respect of accepted cases during the period 2005-06 to 2009-10 was only four <i>per cent</i>.</p>
<p>Results of audits conducted by us in 2010-11</p>	<p>In 2010-11, we test checked the records of 73 units relating to Taxes on Motor Vehicles and Passenger and Goods Tax (PGT) and pointed out observations involving ₹ 3.28 crore in 1,906 cases.</p> <p>During the year 2010-11, the Department accepted underassessments and other deficiencies of ₹ 1.31 crore involved in 360 cases, of which 313 cases involving ₹ 23.88 lakh had been pointed out during the year 2010-11 and the remaining in earlier years. The Department recovered ₹ 1.07 crore in 47 cases during the year 2010-11 relating to previous years.</p>
<p>What we have highlighted in this Chapter</p>	<p>In this Chapter we present a Performance Audit on “Computerisation in Motor Vehicle Department” and illustrative cases of ₹ 1.81 crore selected from observations noticed during our test check of records relating to Taxes on Motor Vehicles and Passenger and Goods Tax (PGT) in the office of the Regional Transport Authority (RTA), Registering Authority (RA), (Motor Vehicle) and DETC (PGT) where we found that the provisions of the Acts/Rules were not observed.</p> <p>In the Performance Audit on Computerisation in Motor Vehicles Department, we have presented the implementation of computer applications "Vahan and Sarathi" relating to registration of vehicles and issue of licenses. Smart card for registration and licenses were not issued at any location due to non-finalisation of tenders. Due to</p>

	inadequate validation checks/ supervisory checks the database was incorrect/ incomplete.
Our conclusion	The Department needs to initiate immediate action to recover the passenger tax and token tax pointed out by us, more so in those cases where Department has accepted our contention. It also needs to strengthen its internal audit. The specific recommendations given on the Performance Audit of Computerisation in Motor Vehicles Department be acted upon.

EXECUTIVE SUMMARY- CHAPTER – VI

Results of audits conducted by us in 2010-11	<p>In 2010-11 we test checked the records of units relating to Excise and Taxation Department (Entertainment duty and show tax), Power (Taxes and duties on electricity), Urban Development, Mines and Geology, Co-operation, Industries and Land Revenue found underassessment of tax, non/short realisation of contract money, non-recovery of royalty and interest and loss of revenue involving ₹ 40.57 crore in 456 cases.</p> <p>The Department accepted underassessments and other deficiencies of ₹ 42.14 crore involved in 374 cases, of which 202 cases involving ₹ 34.14 crore had been pointed out by us during the year 2010-11 and the remaining in the earlier years. The Department recovered ₹ 8.06 crore in 189 cases during the year 2010-11, which included ₹ 4.12 lakh in 17 cases for the year 2010-11.</p>
What we have highlighted in this Chapter	<p>In this Chapter we present an illustrative case relating to the Mining Department, where we found that the royalty for permit issued to Brick Kiln Operators were not recovered.</p>
Our conclusion	<p>The Departments need to initiate immediate action to recover the non/short realisation/recovery etc. pointed by us, more so in those cases where it has accepted our contention. It also needs to strengthen its internal audit.</p>

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

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

(₹ in crore)

Sr. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	• Tax revenue	10,927.76	11,617.82	11,655.28	13,219.50	16,790.37
	• Non-tax revenue	4,590.76	5,097.08	3,238.45	2,741.40	3,420.94
	Total	15,518.52	16,714.90	14,893.73	15,960.90	20,211.31
2.	Receipts from the GOI					
	• Share of net proceeds of divisible Union taxes and duties ¹	1,295.64	1,634.36	1,724.62	1,774.47	2,301.75
	• Grants-in-aid	1,138.27	1,401.48	1,833.96	3,257.29	3,050.62
	Total	2,433.91	3,035.84	3,558.58	5,031.76	5,352.37
3.	Total revenue receipts of the State Government (1 and 2)	17,952.43	19,750.74	18,452.31	20,992.66	25,563.68
4.	Percentage of 1 to 3	86	85	81	76	79

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 20,211.31 crore) was 79 per cent of the total revenue receipts against 76 per cent in the preceding year. The balance 21 per cent of receipts during the year 2010-11 was from the GOI.

The increase of ₹ 4,571.02 crore (22 per cent) in revenue receipts in 2010-11 over the previous year was on account of increase in the State's own share of tax and non-tax revenue of ₹ 4,250.41 crore (27 per cent).

The decrease of ₹ 206.67 crore (six per cent) in grants-in-aid in 2010-11 over the previous year was mainly on account of decrease in State plan grants of ₹ 170.63 crore (19 per cent) and Centrally sponsored schemes of ₹ 184.69 crore (26 per cent).

¹ For details please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Haryana for the year 2010-11. Figures under the head 0021 - Taxes on income other than corporation tax - share of net proceeds assigned to States booked in the Finance Accounts under A - Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this statement.

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

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase(+)/ decrease(-) in 2010-11 over 2009-10
1.	Taxes on sales, trade etc./value added tax (VAT)	6,853.24	7,720.98	8,154.73	9,032.37	11,082.01	(+) 23
2.	State excise	1,217.10	1,378.81	1,418.53	2,059.02	2,365.81	(+) 15
3.	Stamps and registration fees						
	Stamps – judicial	985.62	91.37	1,030.90	945.91	848.09	(-) 10
	Stamps – non-judicial	778.46	1,651.94	267.27	341.86	1,450.33	(+) 324
	Registration fees	0.90	19.97	28.22	5.79	20.86	(+) 260
4.	Taxes on goods and passengers	738.41	379.39	370.29	391.45	387.14	(-) 1
5.	Taxes on vehicles	223.66	233.79	239.30	277.07	457.36	(+) 40
6.	Taxes and duties on electricity	98.28	107.45	106.31	119.58	130.27	(+) 9
7.	Land revenue	12.99	9.38	8.58	9.43	10.02	(+) 6
8.	Other taxes and duties on commodities and services	19.10	24.74	31.15	37.02	38.48	(+) 4
Total		10,927.76	11,617.82	11,655.28	13,219.50	16,790.37	(+) 27

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

- **Taxes on vehicles:** The increase in revenue receipts (40 per cent) was mainly due to better checking by the enforcement staff and impounding of vehicles violating the provisions of Motor Vehicles Act as well as revision of rates of road tax.
- **Stamp duty and registration fee:** The increase in revenue receipts was mainly due to more transactions of immovable property.
- **State Excise:** The increase in revenue receipts was mainly due to increase in the quota of country liquor (CL) and Indian Made Foreign Liquor (IMFL) and as well as increase in licence fee of CL and IMFL.

The other Departments did not inform (October 2011) the reasons for variations, despite being requested (July 2011).

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

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase(+)/ decrease(-) in 2010-11 over 2009-10
1.	Urban development	2,562.34	2,805.24	884.50	133.70	974.54	(+) 629
2.	Interest receipts	648.63	757.20	776.28	667.88	689.34	(+) 3
3.	Road transport	571.18	622.56	645.04	699.57	761.72	(+) 9
4.	Non-ferrous mining and metallurgical industries	136.83	215.74	195.97	247.49	82.59	(-) 67
5.	Other administrative services	61.94	105.54	120.95	96.81	115.63	(+) 19
6.	Miscellaneous general services	130.22	91.25	89.39	95.93	(-) 9.75 ²	(-) 110
7.	Major and medium irrigation	87.19	72.27	74.01	218.56	202.26	(-) 7
8.	Education, sports, art and culture	111.62	117.70	156.10	285.10	270.37	(-) 5
9.	Police	22.79	41.44	55.22	35.11	61.53	(+) 75
10.	Forestry and wildlife	38.62	33.79	40.74	56.13	44.32	(-) 21
11.	Medical and public health	31.59	64.91	30.94	30.23	47.06	(+) 56
12.	Other non-tax receipts	187.81	169.44	169.31	174.89	181.33	(+) 4
Total		4,590.76	5,097.08	3,238.45	2,741.40	3,420.94	(+) 25

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

- **Forestry and wild life:** The decrease in revenue receipts (21 per cent) was due to non-cutting of trees.
- **Non-ferrous mining and metallurgical industries:** The decrease in revenue receipts (67 per cent) was mainly due to closure of mining activities due to pending litigation regarding mining in Aravali hills.
- **Road Transport:** The increase in revenue receipts (nine per cent) was mainly due to better checking by enforcement staff and impounding of

² Due to more refunds than receipts.

vehicles violating the provisions of Motor Vehicle Act as well as revision of rates of road tax.

The other Departments did not inform (October 2011) the reasons for variations, despite being requested (July 2011).

1.2 Response of the Departments/Government towards Audit

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

A brief introduction about the various stages of action on the audit observations/recommendations is mentioned below:

The Principal Accountant General (Audit) Haryana (PAG) 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 PAG within six weeks from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government. Some of these are reported through Report of the Comptroller and Auditor General of India (Audit Report) to the State Legislature every year. The Departments are requested to submit their replies to the Public Accounts Committee (PAC) which examines them in their meetings and give their reports to the State Legislature.

IRs issued upto December 2010 disclosed that 4,734 paragraphs involving ₹ 1,484.56 crore relating to 2,313 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of outstanding IRs	2,868	2,460	2,313
Number of outstanding audit observations	6,553	5,122	4,734
Amount involved (₹ in crore)	8,663.68	1,507.03	1,484.56

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

Sr. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise and Taxation	Sales tax/VAT	259	1,328	625.88
		State excise	111	191	73.36
		Taxes on goods and passengers	129	225	13.96
		Entertainment duty and show tax	19	21	10.94
2.	Revenue	Stamps and registration fees	812	1,727	55.63
		Land revenue	119	186	0.47
3.	Transport	Taxes on vehicles	248	323	7.80
4.	Power	Taxes and duties on electricity	5	5	0.23
5.	Agriculture (Sugarcane)	Purchase tax on sugarcane	31	33	24.68
6.	Urban Development (Town and Country Planning)	Services and service fees for urban development schemes	4	12	573.12
7.	Home (Police)	Receipts of cost of police deployed to other Governments/ Railways etc.	44	47	7.59
8.	Mines and Geology	Non-ferrous mining and metallurgical industries	110	148	14.33
9.	Other Departments	Miscellaneous receipts	422	488	76.57
Total			2,313	4,734	1,484.56

Even the first replies required to be received from the heads of offices within six weeks from the date of issue of the IRs were not received in respect of 119 IRs issued upto December 2010. This 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 PAG in the IRs.

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

1.2.2 Departmental Audit Committee Meetings

The Government set up audit committees in September 1985 to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The Audit Committees may be formed for each Administrative Department which should include Administrative Secretary (Chairman), Deputy Accountant General (Convenor) and Heads of Department (Member). The meetings of these committees may be arranged once in three months to review the progress of the settlement of audit paras and to monitor the pace of work in this behalf. The Chief Secretary has also impressed upon the Administrative Secretaries (August 1998) to ensure holding of Departmental Audit Committee meetings on quarterly basis and inform the Finance Department of the outcome of such meetings.

We observed that the Administrative Secretary had not ensured holding of quarterly Departmental Audit Committee meetings during the year 2010-11. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled (out of total paragraphs)	Amount (₹ in crore) (out of total amount)
Taxes on vehicles	1	129 (319)	1.32 (8.92)
State excise	1	25 (240)	9.00 (53.40)
Passengers and goods tax	2	2 (9)	0.03 (13.62)
Stamp Duty	1	-	-
Taxes on sales, trade etc./VAT	1	-	-
Total	6	156 (568)	10.35 (75.94)

During the year 2010-11, only five out of 13 Departments dealing with 19 major heads of tax and non-tax revenue had convened six meetings of the audit committee. Thus, these Departmental Audit Committees are not functioning effectively since most of the Government Departments had not taken initiatives for disposal/settlement of the pending audit paragraphs/objections through these meetings.

The Government should ensure holding of periodical meetings of the committees for effective progress.

1.2.3. Non-production of records to Audit for scrutiny

The programme of local audit parties of VAT receipts in the offices of Deputy Excise and Taxation Commissioner (DETC) is drawn up sufficiently in advance and intimations are issued, usually one month before the

commencement of audit, to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, 12 VAT assessment cases pertaining to two DETCs were not made available to audit. Thus, VAT assessment cases involving revenue of ₹ 15.87 crore could not be checked in audit. Break-up of these cases are given below:

Name of DETC	Year in which it was to be audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained	Revenue involved (₹ in crore)
Faridabad (East)	2010-11	5	5	15.74
Kaithal	2010-11	7	7	0.13
	Total	12	12	15.87

1.2.4 Response of the Departments to the draft audit paragraphs

The Finance Department had issued directions to all the Departments on 5 January 1982 to send their response to the draft audit paragraphs proposed for inclusion in the Audit Report within six weeks. The draft paragraphs are forwarded by the PAG 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 Departments is invariably indicated at the end of each paragraph included in the Audit Report.

27 draft paragraphs (clubbed in 19 paragraphs) and four reviews included in the Audit Report (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the Secretaries of the Departments concerned during January to June 2011 through demi-official letters. However, reply was received only in one case.

1.2.5 Follow up on Audit Reports-summarised position

According to the instructions issued by the Finance Department in October 1995 and reiterated in July 2001, the administrative Departments were to initiate suo moto positive and concrete action on all paragraphs and reviews featuring in the Audit Report (Revenue Receipts) regardless of whether the cases were taken up for examination by the PAC or not. They were also to furnish detailed notes, duly vetted by Audit indicating the remedial action taken or proposed to be taken by them within three months of the presentation of the Audit Report to the Legislature.

The position of paragraphs which have appeared in the Audit Report and those pending discussion as on 30 September 2011 has been mentioned in **Annexure I**. One hundred sixteen (116) paragraphs pertaining to the period 2005-06 to 2009-10 were pending for discussion by the PAC. The Administrative Departments had failed to submit action taken notes (ATNs) in

respect of 52 out of 116 paragraphs within three months from the date of presentation³ of the Audit Report to the Legislature.

Further, the response of the Administrative Departments towards the recommendations of the PAC was not encouraging as 607 recommendations pertaining to the period 1977-78 to 2004-05 were still pending for want of final action by the concerned Departments (**Annexure II**).

1.2.6 Compliance with the earlier Audit Reports

During the years between 2005-06 and 2009-10, the Department/Government accepted audit observations involving revenue of ₹ 668.89 crore out of which an amount of ₹ 327.48 crore was recovered till 31 March 2011 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	200.60	98.17	6.22
2006-07	407.54	392.67	315.23
2007-08	122.75	29.65	1.93
2008-09	82.74	75.64	0.68
2009-10	346.97	72.76	3.42
Total	1,160.60	668.89	327.48

The recovery in respect of the accepted cases was 49 *per cent* only, which indicated lack of adequate action to enforce recoveries.

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

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

In order to analyse the system of addressing the issues highlighted in the IRs/ Audit Report by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Report of the last 10 years in respect of Revenue Department (Stamp duty and registration fees) is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Revenue Department (Stamp duty and registration fees) to deal with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Report for the years 2001-02 to 2010-11.

1.3.1 Position of Inspection Reports

The IRs incorporating irregularities detected during inspections of the transactions of tax and non-tax receipts (including verification of maintenance of records and accounting procedure) of the various offices of the Revenue Department are issued to the heads of the offices inspected/next higher

³ 2005-06: March 2007; 2006-07: March 2008, 2007-08: February 2009, 2008-09: March 2010 and 2009-10: 04 March 2011.

authorities for taking prompt corrective action. The heads of offices/Department/Government are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly. They were also required to report compliance through initial reply to the PAG within six weeks from the date of issue of the IRs. Serious financial irregularities are also reported to the head of the Department (Revenue Department) and Government through demi-official letter for examination and taking prompt action and offering comments thereon, if any, within six weeks from the date of issue of the advance para. In case of non-receipt of reply within six weeks, we had issued reminders after 50 days from the date of issue of the IRs and thereafter every month. We had also issued half-yearly position of the outstanding audit observations through demi-official letter to the Administrative Department and Collector.

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

(₹ 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 (Percentage to opening balances)	Money value	IRs	Para - graphs	Money value
Upto 2001-02	865	1554	26.04	85	367	7.69	23	168	1.67	927	1753	32.06
2002-03	927	1753	32.06	20	383	8.75	79	258	8.49	868	1878	32.32
2003-04	868	1878	32.32	31	253	4.62	56	182	1.32	843	1949	35.61
2004-05	843	1949	35.61	95	298	6.38	15	158	2.54	923	2089	39.45
2005-06	923	2089	39.45	105	291	14.97	5	156	2.77	1023	2224	51.65
2006-07	1023	2224	51.65	107	318	16.53	31	157	1.72	1099	2385	66.46
2007-08	1099	2385	66.46	140	428	18.55	201	742	21.33	1038	2071	63.68
2008-09	1038	2071	63.68	165	281	8.18	318	424	18.56	885	1928	53.30
2009-10	885	1928	53.30	135	316	12.49	93	273	12.23	927	1971	53.56
2010-11	927	1971	53.56	103	300	12.11	176	450	5.42	854	1821	60.25

The year-wise details of closing balance of IRs, paragraphs and amount involved is given in **Annexure-III**. Out of 1,821 audit observations involving revenue of ₹ 60.25 crore in 854 IRs, 439 audit observations involving revenue of ₹ 12.57 crore (21 per cent) in 324 IRs were more than five years old.

We observed that despite issuing periodical reminders and convening of periodical meetings of the audit committee, there was large pendency of IRs/audit observations which is indicative of failure on the part of the heads of the offices/Collector and Administrative Department to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

To ensure that action to recover the revenue dues does not become time barred, the Government may take suitable steps to ensure that:

- an effective procedure exists for prompt and appropriate response to the audit observations;
- action is taken against officials/officers who fail to take effective steps to get the audit observations settled at the earliest after getting Government revenue recovered or other action as per law; and
- action is taken to recover loss/outstanding demands in a time bound manner.

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

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Report of the last 10 years, those accepted by the Department and the amount recovered are mentioned below:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraph	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year (₹ in lakh)	Cumulative position of recovery of accepted cases (₹ in lakh)
2000-01	05	1.02	05	1.02	Nil	18.02
2001-02	05	1.85	05	1.85	0.01	3.96
2002-03	04	0.35	04	0.35	0.17	1.34
2003-04	05 01(Review)	0.34 55.00	04 01 (Review)	0.31 55.00	0.07 10.59	1.10 16.46
2004-05	04	1.47	04	1.47	Nil	2.88
2005-06	03	7.25	03	7.25	11.00	11.00
2006-07	03	0.34	03	0.34	1.31	1.31
2007-08	04 01(Review)	1.70 24.69	04 01 (Review)	1.70 15.11	Nil	Nil
2008-09	05	0.76	05	0.76	1.43	1.43
2009-10	01(Review)	22.85	01 (Review)	20.96	11.50	11.50
Total	38 03 (Reviews)	15.08 102.54	37 03 (Review)	15.05 91.07	13.99 22.09	41.04 27.96
Grand Total	41	117.62	40	106.12	36.08	69.00

The recovery in respect of the accepted cases for the last ten years was only 0.65 per cent.

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

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

The draft performance reviews conducted by the PAG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference

and the Department's/Government's views are included while finalising the reviews for the Reports of the Comptroller and Auditor General of India.

The issues highlighted in the reviews including recommendations on the Revenue Department relating to Stamp duty and registration fee had featured in the Report of Comptroller and Auditor General of India. The Head of the Department/Government had not intimated their acceptance or any action taken on the 13 recommendations (**Annexure- IV**) included in the three Reports of the Comptroller and Auditor General of India during the years 2000-01 to 2009-10 for the levy and collection of stamp duty and registration fee.

We observed that the Revenue Department/Government had sent their replies to the PAC relating to reviews included in the Audit Report for the years 2000-01 to 2009-10. But they had not given any reply either regarding acceptance of these recommendations or any other comments thereon against the para on conclusion and recommendations of the Audit Reports for the years 2003-04, 2007-08 and 2009-10. They had not furnished replies to the PAC for the Audit Reports for the years 2006-07 to 2009-10. This indicates that the Revenue Department had neither taken any steps for the acceptance/implementation of the recommendations nor intimated their comments thereon.

The Government may advise the Revenue Department to take suitable steps to ensure the compliance of the recommendations or give their comments, if any.

1.4 Audit planning

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

During the year 2010-11, out of 557 auditable units, 316 units were planned and audited during the year 2010-11 which constituted 57 *per cent* of the total auditable units. The details of auditable units and units selected are shown in the **Annexure-V**.

Besides the compliance audit completed as mentioned above, four performance reviews namely 'Receipts from State Excise duty', 'Exemption/deferment and concessions of Sales Tax to Industrial units', 'Cross verification of Declaration forms used in inter State trade', and 'Computerisation in Motor Vehicle Department' were also taken up to examine the efficacy of the tax administration of these receipts.

1.5 Results of Audit

1.5.1 Position of local audit conducted during the year

Test check of the records of 316 units of sales tax/VAT, stamp duty and registration fee, State excise, motor vehicles, forest and other Departmental offices conducted during the year 2010-11 revealed underassessments/short levy/loss of revenue in 4,662 cases aggregating ₹ 1,052.85 crore. During the course of the year, the concerned Departments accepted underassessments and other deficiencies of ₹ 222.79 crore involved in 2,176 cases of which 1,574 cases involving revenue of ₹ 205.18 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 13.77 crore in 519 cases during 2010-11.

1.5.2 This Report

This Report contains 19 paragraphs and four **Performance Audits on 'Exemption/deferment and concession of Sales Tax to industrial units', 'Cross verification of Declaration forms used in inter State trade', 'Computerisation in Motor Vehicle Department' and 'Receipts from State Excise Duty'** relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 324.73 crore.

The Departments/Government have accepted audit observations involving ₹ 183.13 crore out of which ₹ 3.89 crore has been recovered. The replies in the remaining cases had not been received (October 2011). These are discussed in succeeding Chapters II to VI.

CHAPTER-II: SALES TAX/VALUE ADDED TAX

2.1.1 Tax administration

Assessments, levy and collection of value added tax (VAT) in Haryana are governed under the Haryana Value Added Tax Act, 2003 (HVAT Act) and rules framed thereunder. Excise and Taxation Commissioner (ETC) is the head of the Excise and Taxation Department for the administration of HVAT Act and Rules in Haryana. The Excise and Taxation Officers (ETOs) and Assistant Excise and Taxation Officers (AETOs) are responsible for registration of dealers, assessments, levy and collection of VAT. All the dealers registered under the Haryana General Sales Tax Act, 1973 (HGST Act) were liable to get registered under the HVAT Act. Every dealer whose gross turnover (GTO) exceeded ₹ five lakh were liable to get registered under the HVAT Act from the day following the day his GTO exceeded the taxable quantum. All dealers registered under the HVAT Act were assigned Taxpayers Identification Number (TIN). Under the HVAT Act, tax was levied at the prescribed rates at every point of sale after allowing deduction towards tax paid at the previous point {input tax credit (ITC)}. Assessments were made after scrutiny of books of accounts in selected cases under the Act.

2.1.2 Trend of receipts

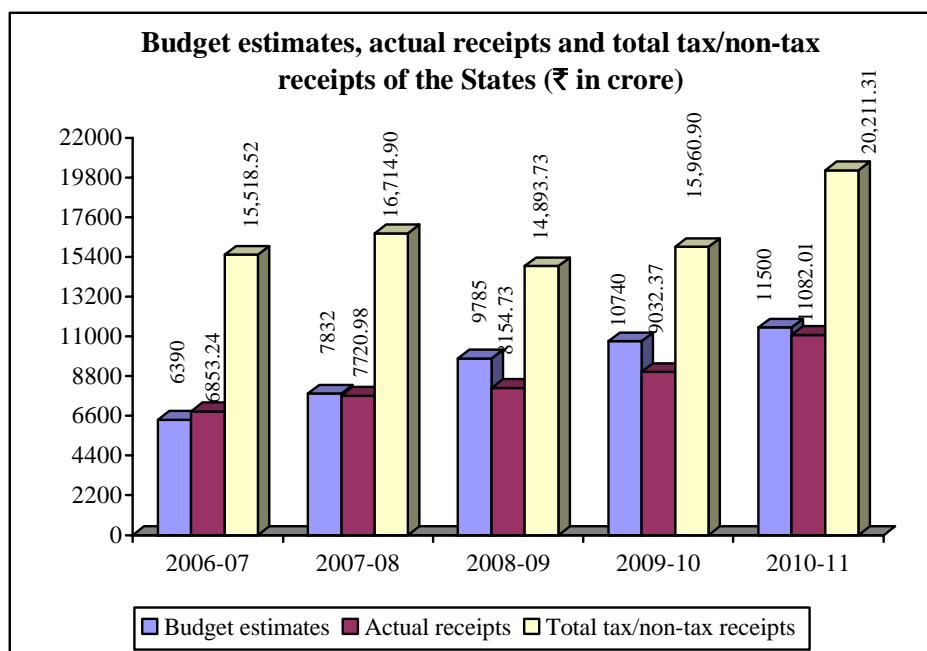
Actual receipts from Taxes on sales, trade etc./VAT during the last five years 2006-07 to 2010-11 along with the total tax/non-tax receipts during the same period is exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Actual VAT receipts	Variation excess (+)/ shortfall (-)	Percentage of variation (Col. 4 to Col. 2)	Total tax/non-tax receipts of the State	Percentage of actual VAT receipts vis-à-vis total tax / non-tax receipts (Col. 3 to Col. 6)
1	2	3	4	5	6	7
2006-07	6,390.00	6,853.24	(+) 463.24	(+) 07	15,518.52	44
2007-08	7,832.00	7,720.98	(-) 111.02	(-) 01	16,714.90	46
2008-09	9,785.00	8,154.73	(-) 1,630.27	(-) 17	14,893.73	55
2009-10	10,740.00	9,032.37	(-) 1,707.63	(-) 16	15,960.90	57
2010-11	11,500.00	11,082.01	(-) 417.99	(-) 04	20,211.31	55

Source: State Budget and Finance accounts.

The receipts from VAT increased from ₹ 6,853.24 crore to ₹ 11,082.01 crore during the period 2006-07 to 2010-11.



2.1.3 Analysis of arrears of revenue

The arrears of sales tax/VAT revenue as on 31 March 2011 amounted to ₹ 2,887.35 crore of which ₹ 722.79 crore (25 per cent) were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of VAT arrears	Amount collected during the year	Closing balance of VAT arrears	Actual VAT receipts	Percentage (Col. 3 to Col. 2)	Percentage of arrears outstanding to VAT receipts (Col. 4 to Col. 5)
1	2	3	4	5	6	7
2006-07	1,142.15	71.93	1,268.50	6,853.24	6	19
2007-08	1,268.50	127.54	1,591.87	7,720.98	10	21
2008-09	1,591.87	155.41	1,955.87	8,154.73	10	24
2009-10	1,955.87	164.08	2,724.08	9,032.37	8	30
2010-11	2,724.08	175.51	2,887.35	11,082.01	6	26

We observed that arrears of revenue had increased from ₹ 1,142.15 crore at the beginning of the year 2006-07 to ₹ 2,887.35 crore (153 per cent) at the end of the year 2010-11. The percentage of realisation of arrears to the arrears at the beginning of the year ranged between six to 10 per cent during the years 2006-07 to 2010-11. Though the VAT receipts increased by 62 per cent (from ₹ 6,853.24 crore in 2006-07 to ₹ 11,082.01 crore in 2010-11), the arrears of

VAT revenue increased by 153 per cent (from ₹ 1,142.15 crore as on 1 April 2006 to ₹ 2,887.35 crore as on 31 March 2011).

The Government may advise the Department to take effective steps for collecting the arrears promptly to augment Government revenue.

2.1.4 Assessee profile

9,990 dealers were registered during the year 2010-11. 1,69,707 dealers registered as on 31 March 2010 were required to file their periodical returns. The information relating to number of returns received and action taken by the Department to issue notices to the remaining dealers who failed to furnish returns is being ascertained from the Department and will be analysed.

2.1.5 Cost of VAT per assessee

The number of assessees and sales tax/VAT receipts during the period 2006-07 to 2010-11 as furnished by the Excise and Taxation Department are mentioned below:

(₹ in lakh)

Year	Number of assessees	Sales tax/VAT receipts	Average collection of VAT per assessee
2006-07	1,45,341	5,57,888.84	3.84
2007-08	1,52,352	6,05,931.44	3.98
2008-09	1,56,545	6,42,489.44	4.10
2009-10	1,61,927	7,53,065.60	4.65
2010-11	1,71,036	11,33,032.08	6.62

We observed that the average collection of VAT per assessee increased from ₹ 3.84 lakh in 2006-07 to ₹ 6.62 lakh in 2010-11.

2.1.6 Arrears in assessments

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

Year	Opening balance	Cases due for assessment during the year	Total	Cases deemed assessed/regularly assessed during the year	Balance cases at the close of the year	Percentage of cases finalised to total cases (Col. 5 to col. 4)
1	2	3	4	5	6	7
2006-07	1,99,797	1,76,682	3,76,479	1,59,608	2,16,871	42
2007-08	2,16,871	1,81,128	3,97,999	1,75,124	2,22,875	44
2008-09	2,22,875	1,83,153	4,06,028	1,64,132	2,41,896	40

Year	Opening balance	Cases due for assessment during the year	Total	Cases deemed assessed/regularly assessed during the year	Balance cases at the close of the year	Percentage of cases finalised to total cases (Col. 5 to col. 4)
1	2	3	4	5	6	7
2009-10	2,41,896	2,34,839	4,76,735	1,89,476	2,87,259	40
2010-11	2,87,259	2,13,687	5,00,946	2,09,140	2,91,806	42

We observed that the number of pending assessment cases had been increasing every year during the period 2006-07 to 2010-11 and the pending cases in respect of sales tax/VAT increased from 1,99,797 cases at the beginning of 2006-07 to 2,91,806 (46 per cent) at the end of 2010-11. The percentage of sales tax/VAT assessment cases deemed assessed/regularly assessed to total cases during the period 2006-07 to 2010-11 ranged between 40 to 44 per cent.

The Government may advise the Department to take necessary steps for early disposal of these pending assessment cases to augment Government revenue.

2.1.7 Cost of collection

The gross collection in respect of revenue receipts of Taxes on sales, trade etc./VAT, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure of collection to gross collection for the relevant year are mentioned below:

(₹ in crore)

Year	Gross Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average cost of collection
2006-07	6,853.24	45.42	0.66	0.82
2007-08	7,720.98	50.64	0.66	0.83
2008-09	8,154.73	65.92	0.81	0.88
2009-10	9,032.37	78.48	0.87	0.96
2010-11	11,082.01	87.82	0.79	-

Source: Finance Accounts.

2.1.8 Analysis of collection

The break-up of the total collection at pre-assessment stage and after regular assessments of sales tax/VAT cases for the year 2010-11 and the corresponding figures for the preceding four years as furnished by the Excise and Taxation Department are mentioned below:

(₹ in crore)

Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Amount refunded	Net collection as per Department	Net collection as per Finance Accounts	Percentage of collection at pre-assessment stage to net collection (column 2 to column 5)
1	2	3	4	5	6	7
2006-07	6,263.05	644.42	54.23	6,853.24	6,853.24	91
2007-08	7,223.15	723.60	81.15	7,865.60 ¹	7,720.98 ¹	92
2008-09	8,132.08	528.42	101.34	8,559.16 ¹	8,154.73 ¹	95
2009-10	9,973.05	394.45	133.09	10,234.41 ¹	9,032.37 ¹	97
2010-11	11,224.83	2024.09	623.04	12,625.88 ¹	11,082.01 ¹	89

We observed that percentage of collection of revenue at pre-assessment stage to net collection ranged between 89 and 97 *per cent* during the years 2006-07 to 2010-11.

2.1.9 Revenue impact of the Audit

2.1.9.1 Position of Inspection Reports

The performance of the Excise and Taxation Department to deal with the irregularities detected in the course of local audit conducted during the year

¹ There are differences of ₹ 144.62 crore, ₹ 404.43 crore, ₹ 1,202.04 crore and ₹ 1,543.87 crore in the Departmental figures and the figures given in the Statement No. 11 – Detailed accounts of revenue by minor heads in the Finance Accounts of the Government for the years 2007-08, 2008-09, 2009-10 and 2010-11 respectively. The Department stated in November 2011 that the figures relates to compensation under CST under head 1601 received by the Finance Department from the GOI. However, these figures have not yet been reconciled with the Finance Department.

2009-10 and the corresponding figures for the preceding four years is tabulated below:

(₹ in crore)

Year	Units audited			Cases accepted		Recovery made during the year		Percentage of recovery to amount accepted
	Number	Number of cases objected	Amount	Number	Amount	Number	Amount	
2005-06	46	960	241.06	95	1.07	60	0.95	89
2006-07	43	974	395.96	147	1.84	88	0.83	45
2007-08	47	1,232	176.04	145	2.44	77	1.44	59
2008-09	46	863	208.32	106	8.48	61	0.81	10
2009-10	33	667	217.05	102	32.59	36	0.39	1
Total	215	4,696	1,238.43	595	46.42	322	4.42	

We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only 10 per cent.

2.1.9.2 Position of Audit Reports

During the last five years (including the current year's report), audit through its Audit Reports had pointed out non/short levy/realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ₹ 280.23 crore in 47 paragraphs. Of these, the Department/Government had accepted audit observations in 41 paragraphs involving ₹ 56.19 crore and recovered ₹ 4.91 crore. The details are shown in the following table.

(₹ in crore)

Year of Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2006-07	7	6.54	7	6.54	3	4.52
2007-08	8	2.17	7	1.00	2	0.32
2008-09	11	5.48	11	5.11	2	0.07
2009-10	11	119.01	11	30.95	-	-
2010-11	10	147.03	5	12.59	-	-
Total	47	280.23	41	56.19	7	4.91

We observed that the recovery in respect of accepted cases was only nine per cent. The slow progress of recovery even in respect of accepted cases is indicative of failure on the part of the heads of offices/Department to initiate action to recover the Government dues promptly.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the amount involved in accepted cases are promptly recovered.

2.1.10 Results of audit

Test check of the records relating to assessments and refunds of sales tax/VAT in Excise and Taxation Department, conducted during the year 2010-11 revealed irregularities in assessments, levy and collection of tax involving ₹ 976.56 crore in 775 cases, which broadly fall under the following categories:
(₹ in crore)

Sr. No.	Category	Number of cases	Amount
1.	Exemption/deferment and concessions of Sales Tax to Industrial Units (A review)	1	144.37
2.	Cross Verification of Declaration forms used in Inter State Trade	1	3.73
3.	Application of incorrect rates of tax	116	186.10
4.	Under-assessment of turnover under Central Sales Tax Act	180	110.58
5.	Non-levy of penalty	45	412.95
6.	Non-levy of interest	35	12.09
7.	Incorrect computation of turnover	45	6.90
8.	Other irregularities	352	99.84
	Total	775	976.56

During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 149.39 crore involved in 182 cases of which 27 cases involving ₹ 141.19 crore had been pointed out during 2010-11 and the remaining in the earlier years. The Department recovered ₹ 1.67 crore in 54 cases during the year 2010-11, of which five cases involving ₹ 9.78 lakh related to the year 2010-11 and balance to earlier years.

Two reviews of “**Exemption/deferment and concessions of Sales Tax to Industrial Units**” and “**Cross Verification of Declaration forms used in Inter State Trade**” involving ₹ 148.10 crore and a few illustrative audit observations involving ₹ 147.03 crore are mentioned in the succeeding paragraphs.

2.2 Exemption/deferment and concessions of Sales Tax to Industrial Units

2.2.1 Highlights

- No database was maintained either by the Industries Department or by the Excise and Taxation Department regarding units availing benefit of tax concessions. The Excise and Taxation Department had no database regarding tax benefits availed, tax recovered and due from units availing tax concession. An evaluation study of the Scheme was not carried out to evaluate the impact of tax concessions on growth of industries and employment.

(Paragraph 2.2.7)

- We found that agro based and electronic/software industries did not set up units in the State despite attractive tax concessions of 250 and 300 *per cent* of fixed capital investment offered to them by the State Government under the Scheme.

(Paragraph 2.2.7.1)

- We noticed in four offices that 17 units after availing exemption had closed business and the Department had not recovered ₹ 20.64 crore of exemption/deferment benefits availed by them.

(Paragraph 2.2.8)

- Department had not kept records of repayment dues of exemption units.

(Paragraph 2.2.9)

- The Department relaxed control measures on exemption units by belated assessments, the delays ranging from seven to 98 months.

(Paragraph 2.2.10)

- The Department granted excess benefit of tax deferment of ₹ 4.47 crore to an expansion unit treating it as a new unit.

(Paragraph 2.2.11)

- Interest free loan of ₹ 2.91 crore from nine units in three districts and interest of ₹ 48.53 lakh on delayed payments from two dealers in two districts were also not recovered.

(Paragraph 2.2.12.1 and 2.2.12.2)

- Incorrect allowance of deduction of ₹ 3.35 crore treating the sale of High Density Polyethylene (HDPE) fabric as tax free goods resulted in non-levy of VAT of ₹ 33.49 lakh.

(Paragraph 2.2.15)

- Breach of conditions regarding maintenance of production levels in 36 cases were seen resulting in non-recovery of incentives of ₹ 130.82 crore due.

(Paragraph 2.2.19.1)

- The Department neither raised nor recovered the demand of benefit availed and interest of ₹ 3.87 crore due from two dealers in Gurgaon/Rewari who had discontinued their manufacturing activities during currency period of exemption/deferment.

(Paragraph 2.2.19.2)

2.2.2 Introduction

In the interest of industrial development of the State, Government of Haryana introduced in May 1989, a new scheme for exemption/deferment of payment of sales tax in respect of new industrial units and the units undertaking expansion/diversification. This was applicable to those units which were established during the operative period starting from 1 April 1988 to 31 July 1997 under Rule 28 A of Haryana General Sales Tax Rules, 1975 (HGST Rules). The scheme was modified on 18 May 1999 effective from 1 August 1997 under Rule 28 B and further modified on 15 October 2001 effective from 15 November 1999 under Rule 28 C of HGST Rules. On introduction of HVAT Act, the provisions of Section 13 B and 25 A of the HVAT Act and the rules framed thereunder relating to tax concessions to industrial units remained in force subject to some exceptions under Section 61 read with Rules 69 of the HVAT Act. Exemption and capital subsidy ceased from 01 April 2003.

The industrial units availing the benefit of exemption capital subsidy may, in the prescribed manner, change over to deferment of payment of tax for the remaining period and the remaining extent of benefit but where an industrial unit does not choose to do so, the benefit of capital subsidy/exemption to it from payment of tax shall cease to take effect on and from the appointing day. Deferred tax was to be repaid after five years or an industrial unit availing the benefit of deferment of payment of tax, whether by change over under the foregoing provisions or otherwise, may, in lieu of making payment of deferred tax after five years, pay half of the amount of deferred tax, upfront along with the returns and on making payment in this manner, the tax due according to returns shall be deemed to have been paid in full and the tax deferred in each other case shall be converted into interest free loan in the manner prescribed. The concerned DETC had to watch the production level of unit during post benefit period. The eligibility certificate granted to an industrial unit shall be liable to be withdrawn at any time during its currency period by appropriate screening committee, (HLSC or LLSC) in case of obtaining the eligibility certificate by fraud, closing down of the business and disposal or transfer of fixed assets.

The benefits sanctioned under Rule 28 A and 28 B of HGST Rules were reviewed by us, and had already been printed in the Report of the Comptroller and Auditor General of India for the year 2001-02. In this Performance Audit,

we have focused on the modified scheme under Rule 28 C. The salient features of the scheme relating to tax concession are as under:

Rule and period of Scheme	Sale tax incentive	Monetary ceiling	Period of eligibility	Remarks
28C 15 November 1999 to 30 April 2000	Concession of deferment of payment of sale tax and conversion of the same to capital subsidy computed on the sale of goods (including by-products and waste) manufactured by the unit or arising from the process of manufacturer and declared in the sale tax return.	<ol style="list-style-type: none"> 1. For new units 100 per cent to 150 per cent of fixed capital investment (FCI) 2. For agro based units 250 per cent of FCI 3. For information technology/software/electronic based industry 300 per cent of FCI 4. For expansion/diversification units 100 per cent of additional investment in plant and machinery 5. Sick industrial units 100 per cent to 150 per cent of FCI 	<p>Nine years to 11 years or earlier if the ceilings are reached.</p> <p>Nine years to 11 years or earlier if the ceilings are reached.</p> <p>Nine years to 11 years or earlier if the ceilings are reached.</p> <p>Five years or earlier if the ceilings are reached.</p> <p>Three years or earlier if the ceilings are reached.</p>	<p>For new units 50 per cent concession for nine years or graded scale 80 per cent to 20 per cent from one year to 11 years of payable tax.</p> <p>For the purpose of calculation of benefit availed of under the Rule, tax payable including the component of tax to be converted into capital subsidy shall be taken into account.</p>

2.2.3 Organisational set up

The Eligibility Certificate for the Industries are issued by the Industrial Department, whereas the Taxation Department is required to ensure receipt of returns relating to sales tax and watching the payment of the deferred taxes after the completion of the concession period of the industry concerned. At the Government level, Financial Commissioner and Principal Secretary, Excise and Taxation Department (FCET) is responsible for the administration of Sales Tax Laws in the State. At the Departmental level, the ETC is responsible for the administration of Sales Tax/VAT/Central Sales Tax (CST) Acts and the rules framed thereunder. The ETC is assisted by Assistant Excise and Taxation Commissioners (AETCs), Joint Excise and Taxation Commissioners (JETCs) and Deputy Excise and Taxation Commissioners (Sales Tax) {(DETCs (ST)}, ETOs and allied staff at headquarters.

Eligibility certificate in respect of small scale industry is issued at district level by the General Manager, District Industry Centre (GMDIC) and those in respect of medium and large scale industry is issued at Directorate level by the Additional Director of Industries. There are Screening Committees in place comprising of representatives of the Industries Department, Haryana State Industrial Corporation and the Excise and Taxation, Commissioner, for deciding on the issue of Eligibility Certificate to the industrial units.

2.2.4 Audit objectives

We conducted the review with a view to ascertain whether:

- incentives sanctioned by the implementing agencies were as per norms;
- assessment of the units was taken up on priority basis to detect excess/incorrect availing of benefit;
- repayment of instalments of deferred tax due from the units availing benefits of the scheme were effected within the prescribed time period;
- quantum of incentive claimed by the eligible units was properly assessed;
- an internal control mechanism existed to prevent the loss of revenue and misuse of the provisions of the schemes; and
- compliance of provisions of rules made for post benefit period.

2.2.5 Audit criteria

The audit findings were benchmarked against the following audit criteria:

- Haryana General Sales Tax Act, 1973
- Haryana General Sales Tax Rules, 1975
- New industrial policy/scheme for exemption/deferment of payments of sales tax 1989 as modified from time to time
- Haryana Value Added Tax Act/Rules, 2003
- Central Sales Tax Act, 1956
- Central Sales Tax (Punjab) (Haryana) Rules, 1957 and
- Departmental Notifications and Circulars issued regarding exemption/deferment of VAT in respect of industrial units.

2.2.5.1 Scope and methodology of audit

The relevant records relating to exemption/deferment and concession to industrial units of 10 (out of 21) districts in the State for the period 2005-06 to 2009-10 were test checked between June 2010 and February 2011. We selected eight districts² on random sample selection basis by applying probability proportional to size method (without replacement) and Gurgaon and Faridabad districts were selected on the basis of the risk analysis. We have also included points of similar nature noticed during audit for the period 2005-06 to 2009-10.

2.2.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of Industry and Excise and Taxation Department in providing necessary

² Bhiwani, Hisar, Karnal, Mewat, Palwal, Panipat, Rewari and Sonapat.

information and records for facilitating audit by us. An entry conference was held in August 2010 with the Financial Commissioner-cum-Principal Secretary to Haryana Government (Excise and Taxation Department) and other Departmental officers wherein the audit objectives, methodology and selection of districts were explained. The suggestions of the Department were kept in view at the time of selection of districts and conducting audit. We forwarded the draft review report to the Department and Government in June and August 2011. An exit conference was held on 21 and 22 September 2011 with the Financial Commissioner and Principal Secretary to Haryana Government (Excise and Taxation Department) and Industries Department ETC, Additional Director and other officers. During the exit conference, the findings of the review and recommendations were discussed. The replies furnished by the Department during exit conference and at other times have been appropriately incorporated in the respective paragraphs.

2.2.7 Implementation of scheme by the Industries and Excise and Taxation Department

2.2.7.1 Director of Industries and Commerce and Excise and Taxation Department did not have consolidated database figures of benefit sanctioned availed by various units. We could not assess the impact on revenue of the Government by way of exemption/deferment/concession and the benefits accrued/derived by the State as a result of implementation of scheme. Director of Industries and Commerce, Haryana stated that headquarter had only information of the cases to whom benefit of tax concession was approved by HLSC. The Department informed us that HLSC had approved tax concession in 38 cases amounting to ₹ 146.33 crore, whereas we found that details of seven units to whom benefit of tax concession of ₹ 64.49 crore was sanctioned under Rule 28 (C) were not included in the details of cases provided to audit.

In Industrial policy 1999, the State Government had identified thrust areas to promote industrial investment in the State in agro based and food processing industries, electronics, information and technology and telecommunication, automobiles, automotive components, light and medium engineering, handloom, hosiery, textile and garment manufacturing and export oriented units. The State Government specially allowed 250 *per cent* of FCI as tax concession to agro based units and 300 *per cent* of FCI to information technology/software/electronic industries under Rule 28 C of HGST Rules. Despite 250 *per cent* benefit to agro industries and 300 *per cent* benefit to software based industries, as per information available from 13³ districts, not a single unit had been set up under the scheme.

The Industries Department had not made any evaluation study to evaluate the impact of tax concession on growth of above mentioned industries and on employment in the State. Information regarding status of industries whether these were closed or in the running position was not available at headquarters level. Excise and Taxation Department had also no database at Headquarter

³ Rewari, Jind, Rohtak, Yamunanagar, Bhiwani, Karnal, Kaithal, Hisar, Fatehabad, Sirsa, Gurgaon, Panipat and Jhajjar.

level regarding tax benefit availed, recovered and due from units availing benefit of tax concession.

2.2.7.2 As per information made available from 20 DETC (ST) offices benefit of deferment/concession of ₹ 200.04 crore availed of by the units availing tax benefit of Exemption/deferment/concession under rule 28A/B/C of HGST Rules, 1975 and further opted deferment under Section 61 of HVAT Act, 2003 during the period 2005-06 to 2009-10 was as under:

(₹ in crore)

Year	No. of units availed benefit	Amount
2005-06	273	52.94
2006-07	177	51.37
2007-08	121	40.57
2008-09	70	33.44
2009-10	33	21.72
Total	674	200.04

Note:- Above units include units under Rule 28A, B and C, which continued during above period.

After we pointed out the case in August 2011, the Excise and Taxation Department stated in September 2011 that efforts would be made to maintain proper database at headquarter level.

Audit findings

System deficiencies

2.2.8 Lack of co-ordination between implementing agencies to recover the demand on premature closure of business

The main objective of sales tax incentive scheme was overall industrial development of the State. After issue of eligibility certificate for exemption/deferment of sales tax/VAT, the Industries Department had to monitor proper running of the units and Excise and Taxation Department had to recover the benefit availed under the scheme on premature closure of the business.

As per provision (9) under Rule 28 A of HGST Rules, the exemption/entitlement certificate granted to an eligible industrial unit shall be liable to be cancelled by the DETC (ST) concerned either in the case of discontinuance of its business by the unit any time for a period exceeding six months or closing down its business during the period of exemption/deferment. Further, under the rules *ibid* on cancellation of

eligibility certificate or exemption/entitlement certificate before it is due for expiry, the entire amount of tax exempted/deferred shall become payable immediately in lump sum and the provisions relating to recovery of tax, interest and imposition of penalty shall be applicable in such cases.

A mention was made in the Report of the Comptroller and Auditor General of India for the year 2001-02 and was discussed in PAC during the year 2007-08. In 155 cases PAC desired to recover the outstanding amount of arrears but in 63 cases follow up action taken by Government was still awaited.

During test check of the records of four offices of DETC (ST), between June 2010 and February 2011, we noticed that 17 units after availing exemption/deferment of ₹ 12.34 crore during the years 1993-94 to 2005-06 discontinued their manufacturing process during the currency period of exemption/deferment.

Though the concerned DETC cancelled the exemption/entitlement certificates of these units, they did not recover ₹ 20.64 crore of exemption/deferment availed by the units including interest as detailed below:

(₹ in crore)

Sr. No.	Name of DETCs	No. of units	Amount of exemption/deferment to be recovered
1.	Rewari	2	12.03
2.	Sonepat	1	1.21
3.	Gurgaon (West)	2	3.47
4	Bhiwani	12	3.93
	Total	17	20.64

After we pointed out these cases between June 2010 and February 2011, DETC (ST), Rewari stated in one case that matter was pending in High Court and another case was pending in suo motu action with DETC (ST)-cum-Revisional Authority. DETC (ST), Bhiwani stated that efforts would be made to recover the amount. DETC (ST), Sonepat stated that notice had been issued to the dealer and DETC (ST), Gurgaon (West) stated that firm had been closed and property had been auctioned by bank and efforts would be made to recover the balance amount. We have not received further progress report (October 2011).

2.2.9 Non-maintenance of proper records of beneficiaries availing deferment of sales tax and non recovery of taxes

Under Rule 28 A and 28 B of HGST Rules, tax allowed to be deferred, payable after five years and seven years respectively. DETCs were required to maintain a register to note the details of tax deferred and received.

During test check of the records/register of the offices of DETC (ST), Bhiwani, Faridabad (West) and Gurgaon (West) between July 2010 and February 2011, we noticed that 18 dealers availed benefit of deferred tax aggregating to ₹ 3.76 crore during the years 1999-2000 to 2004-05 but their repayment, which was due during the years 2005-06 and 2009-10 was not posted in the prescribed register. Audit could not ascertain whether the tax has been received or not as there was no entry in the prescribed register.

After we pointed out these cases between July 2010 and February 2011, DETC (ST) Bhiwani stated in one case that unit had been declared sick unit by Board of Industrial and Financial Reconstruction (BIFR) in December 2006. The reply was not in consonance with the provisions of the Act as deferred tax was to be converted into interest free loan by Industry Department. No reply has been received from remaining 17 cases of DETC (ST) Faridabad and Gurgaon (October 2011). Further, the Excise and Taxation Department stated in September 2011 that records would be updated.

2.2.10 Control measures on exemption units relaxed by delay in assessment

Under the provisions of HGST Rules, the assessment of an eligible industrial unit holding exemption/entitlement certificate shall be made in accordance with the provisions of the Act and rules framed thereunder as early as possible and shall be completed by 31 December in respect of the assessment year immediately preceding thereto and the additional demand so determined, if any, shall be paid as per provisions of the Act.

During test check of the assessment records of 10⁴ sales tax Districts of DETC (ST), we noticed between June 2010 and February 2011 that 52 assessment cases relating to the years 1999-2000 to 2006-07 involving additional demand of ₹ 10.36 crore were assessed after the prescribed dates. The delay ranged between seven to 98 months.

After we pointed out the case between June 2010 and February 2011, DETC (ST) Faridabad (East) and Rewari stated (June and December 2010) that there was no loss of revenue due to delay in assessment. The replies of the

⁴ Bhiwani, Faridabad, Gurgaon, Hisar, Karnal, Mewat, Palwal, Panipat, Rewari and Sonapat.

Department were not in consonance with the provisions of the Act as due to delay in assessment, the additional demands were deposited late by dealer and consequently there was loss of interest to the Government.

After we pointed out the case to the Government in June and August 2011, the Excise and Taxation Department stated in September 2011 that these cases were assessed as per provisions of HVAT Act, 2003. We found that the reply of the ETC was not in consonance with the law, since the Haryana Sales Tax Act and Rules framed thereunder relating to Tax Concessions continue in force even after introduction of the Haryana VAT Act and as such the assessments were required to be completed by December every year as per the HGST Act provisions mentioned above. Further regular assessments in time are essential as a control measures to ensure that the units are running after availing the tax concessions given to them by the Government under Section 61 (D) of HVAT Act.

Compliance deficiencies

Industries Department

2.2.11 Excess benefit of deferment for expansion of industrial unit

Rule 28B, 5 (A) of HGST Rules, expansion unit set up in low potential zone, the facility of sale tax deferment would be seven years and large and medium scale industry is eligible for benefit of tax deferment (125 per cent of FCI).

During test check of the records of office of GMDIC Palwal in August 2010, we noticed that a firm manufacturing Hydraulic Turbines, Butterfly Valves and parts thereof applied in June 1999 for its expansion project at Prithla (District Palwal) to issue an eligibility certificate for deferment of sales tax for seven years to manufacture the same item. On the report of GMDIC

Faridabad, the Director of Industries, Haryana issued an eligibility certificate for ₹ 27.43 crore for the period from 02 August 1999 to 01 August 2008 treating it as a **new unit** instead of **expansion unit**. The unit was eligible for deferment for seven years (upto 1 August 2006). The dealer availed benefit of deferment of tax of ₹ 11.05 crore against the eligible benefit of tax deferment of ₹ 6.58 crore during the period 02 August 1999 to 01 August 2006. This resulted in excess deferment of tax amounting to ₹ 4.47 crore which was availed during 02 August 2006 to 01 August 2008.

After we pointed out the case in August 2010, the GMDIC Palwal stated (December 2010) that the firm had been asked to explain their position and to deposit the amount of excess benefit availed. Further, the Industry Department stated in September 2011 that facts would be verified and necessary corrective steps would be taken as per the scheme. We have not received further progress report.

2.2.12 Non/short recovery of interest free loan

The State Government had approved a scheme in December 1992 to provide interest free loan to the extent of sales tax liabilities of an industrial unit, which had opted for its deferred payment under the industrial policy of the State Government. The eligible industrial units holding eligibility and entitlement certificate can avail benefit of the scheme by opting, to convert the tax deferred for the previous years into interest free loan provided assessment under the Income Tax Act for those years has not been finalised. GMDIC of the concerned district is fully empowered to recover the loan in the case of default as arrear of land revenue under the provision of the Haryana Public Money Recovery Act. In case of any default or delay in repayment of loan, interest will be charged as provided under HGST Act and the rules made thereunder.

2.2.12.1 During test check of the records of offices of GMDIC, Faridabad, Rewari and Gurgaon between August 2010 and January 2011, we noticed that interest free loan amounting to ₹ 3.99 crore was sanctioned to nine dealers availing benefit of deferment of tax under Rule 28A and 28B of HGST Rule 1975 between March 1998 to March 2005 and was due for repayment between April 2003 to April 2010. Out of ₹ 3.99 crore, an amount of ₹ 1.08 crore was recovered leaving a balance of ₹ 2.91 crore as shown below:

(₹ in crore)

Sr. No.	District Industries Centre	No. of units	Amount of interest free loan sanctioned	Amount recovered	Amount not recovered
1	Faridabad	5	2.22	0.78	1.44
2	Rewari	2	0.68	0.04	0.64
3	Gurgaon	2	1.09	0.26	0.83
	Total	9	3.99	1.08	2.91

After we pointed out these cases between August 2010 and January 2011, GMDIC, Rewari stated in January 2011 that claim had been filed with official liquidator in one case and in another case matter was under appeal with Hon'ble High Court Delhi. GMDIC, Faridabad stated in January 2011 that efforts would be made to recover the balance amount. Further, the Industry Department admitted the facts and stated in September 2011 that ₹ 53 lakh had been recovered in respect of Faridabad district and in respect of Gurgaon district in one case the company had gone into liquidation and in another case GMDIC, Gurgaon had been asked to recover the amount of interest free loan (IFL) by invoking the bank guarantee furnished by the unit.

2.2.12.2 During test check of the records of offices of GMDIC, Rewari and Sonapat between June and September 2010 we noticed that two dealers

availing benefit of tax deferment under Rule 28A of HGST Rule 1975 had availed IFL from GMDIC in lieu of deferred tax. Interest amounting to ₹ 48.53 lakh was not recovered on delayed payment of interest free loan as detailed below:

(₹ in lakh)

Sr. No.	GMDIC	Number of cases	Interest due	Interest Paid	Non/short levy of interest
1	Sonepat	1	19.04	-	19.04
2	Rewari	1	29.49	-	29.49
	Total	2	48.53	-	48.53

After we pointed out these cases between June and September 2010, GMDIC Rewari stated that interest was to be recovered by Excise and Taxation Department. The reply of GMDIC, Rewari was not inconsonance of policy of interest free loan. Interest on delayed payment of IFL was to be recovered by GMDIC. In one case GMDIC, Sonepat stated in March 2011 that notice had been issued to the dealer and efforts would be made to recover the interest liability. Further, the Industry Department stated in September 2011 that interest would be recovered as per provisions of HGST Act.

2.2.13 Incorrect computation of fixed capital investment and excess tax concession

Rule 28 C (2g) of HGST Rules, FCI means investment in (i) land under use; (ii) new construction; (iii) plant and machinery; (iv) capitalised installation expenditure for plant and machinery; (v) capitalised interest during the period of construction of the unit not exceeding five *per cent* of total FCI and (vi) technical knowhow fees. Investment under item (i) and (ii) shall, for the purpose of calculating FCI be limited to investment in items (iii) to (vi).

During test check of the records of office of GMDIC, Bhiwani in February 2011, we noticed that in one case LLSC approved tax concession of ₹ 11.49 lakh on the basis of 150 *per cent* of FCI of ₹ 7.66 lakh and had not limited the investment of item (i) and (ii) with the investment of item (iii) to (vi). The cost of land and building was to be limited to ₹ 2.90 lakh. The industrial unit was eligible of tax concession of ₹ 8.70 lakh on the basis of 150 *per cent* of FCI of ₹ 5.80 lakh resulting in excess concession.

In another cases LLSC approved concession of ₹ 1.59 crore on the basis of FCI of ₹ 90.65 lakh whereas the DETC (ST) verified the FCI of ₹ 84.04 lakh and the concession of tax worked out to ₹ 1.47 crore (175 *per cent* of ₹ 84.04 lakh) instead of ₹ 1.59 crore. This resulted in excess grant of concession of ₹ 14.79 lakh, in both cases.

After we pointed out these cases in February 2011, the Department stated in April 2011 that the matter would be put up in the next meeting of LLSC to review its decision. Further, the Industry Department stated in September 2011 that matter would require reconsideration at the level of LLSC and HLSC.

Excise and Taxation Department

2.2.14 Irregular concession of tax deferment

Under Section 61 read with Rule 69 (2) of the HVAT Act, the unit may, in lieu of availing deferment of tax, elect, by indicating in the application in form VAT A-5 made under sub rule (1), to make payment of one half of the tax otherwise due before the time prescribed for filing of quarterly returns and where the tax is so paid the unit shall have no further liability to pay tax for the said period as such payment for computation of tax benefit availed by the unit and input tax passed on to the purchaser, if otherwise, if admissible to him, shall be deemed full payment. This facility shall also be available to a unit who has been availing the benefit of deferment of payment of tax before the appointed day provided such unit sends an intimation to the officer incharge of the district within 15 days of coming into force of these rules. Sub rule (6) provides that the deferred amount of tax in other cases shall be converted into interest free loan in respect of each industrial unit on annual basis in the manner laid down by the Industry Department of the State.

2.2.14.1 During test check of the assessment records of office of DETC (ST), Faridabad (West) in December 2010, we noticed that two dealers availing benefit of deferment under Rule 28 B of HGST Rules, had not opted for making 50 per cent upfront payment along with returns under HVAT Act. The AA, while finalising the assessment for the years 2003-04 to 2005-06 between February 2007 and March 2009, had allowed 50 per cent concession amounting to ₹ 12.64 lakh, which was irregular.

After we pointed out the case in December 2010, ETO Faridabad (West) stated in December 2010 that notice would be issued to dealer regarding exercise the option. The reply of ETO Faridabad (West) was not in consonance with the provision of Rule 69 under Section 61 of HVAT Act, the option was to be given up to 24 October 2003 and the option cannot be given now.

Further, the Excise and Taxation Department stated in September 2011 that there was no loss of revenue. Reply of

the Department was not in consonance of the provisions of HVAT Act, if the tax was deferred hundred per cent as per option of dealer then Department had to receive interest free loan from GMDIC for full deferred amount. We have not received further progress report (October 2011).

2.2.14.2 During test check of the records of the office of DETC (ST), Gurgaon (West) in July 2010, we noticed that one dealer availing tax deferment for the period from 7 July 1999 to 6 July 2008 under rule 28 B of HGST Rules, had opted in June 2003 under HVAT Act, to pay 50 per cent of tax due along with return in lieu of deferment of tax for remaining period from 1 April 2003 to

6 July 2008 for balance amount of ₹ 80.98 lakh. The AA, while finalising the assessment for the years 2003-04 to 2006-07 between March 2007 and March 2010 allowed cent *per cent* deferment of tax liability of ₹ 84.05 lakh instead of 50 *per cent* concession of ₹ 42.02 lakh and deferred tax was also not converted into interest free loan from GMDIC. This resulted in excess deferment of ₹ 42.03 lakh.

After we pointed out the case in July 2010, we have not received any reply (October 2011).

2.2.14.3 During test check of the records of the office of DETC (ST), Bhiwani in February 2011, we noticed that one dealer availing benefit of tax exemption for the period from 25 December 1998 to 24 December 2008 under rule 28 B of HGST Rules had opted to pay 50 *per cent* of tax due along with return in lieu of deferment of tax for remaining period from 1 April 2003 to 24 December 2008 for balance quantum. The AA, while finalising the assessment in July 2009 for the year 2007-08 allowed cent *per cent* deferment of tax of ₹ 6.06 lakh instead of ₹ 3.03 lakh under CST Act and the dealer had not paid fifty *per cent* upfront payment along with return. This resulted in underassessment of tax ₹ 4.24 lakh (including interest⁵ of ₹ 1.21 lakh).

After we pointed out the case in February 2011, DETC (ST), Bhiwani replied in February 2011 that matter is under examination. Further, the Excise and Taxation Department stated in September 2011 that as per notification dated 10 April 2003, no tax under the said Act was payable with effect from 11 May 2002. Reply of the Department was not in consonance of the provisions of HVAT Act as there was no such exemption of tax in said notification for the units availing deferment.

2.2.14.4 During test check of the assessment records and registers of the office of DETC Hisar in January 2011, we noticed that three dealers availing benefit of exemption of tax for the period from August 1995 to January 2009 had opted to pay fifty *per cent* of tax due along with return in lieu of deferment of tax for remaining period after 1 April 2003 under HVAT Act 2003 and also paid 50 *per cent*. To calculate the notional tax liability of availed benefit cent *per cent* amount was to be taken into account including 50 *per cent* tax paid by dealer along with return. The AA, while finalising the assessment deducted amount equal to fifty *per cent* tax concession availed by the dealer instead of cent *per cent* from balance quantum of deferment amount. This resulted in excess concession of ₹ 14.40 lakh.

After we pointed out the case in January 2011, the Excise and Taxation Department admitted the facts and stated that cases were under the suo motu action.

⁵ Interest calculated from 1 November 2007 to 30 June 2009.

2.2.15 Non-levy of tax on sale of HDPE Fabrics

Under the HVAT Act, High Density Polyethylene (HDPE) fabrics (Plastic goods), being not specified item in any schedule, are leviable to tax at the general rate of 10 per cent with effect from 1 April 2003.

During test check of the records of office of DETC (ST), Sonapat in September 2010, we noticed that a dealer availing benefit of tax deferment made sales of HDPE fabrics valued as ₹ 3.35 crore (HVAT: ₹ 0.36 crore, CST: ₹ 2.99 crore) during the year 2003-04 without payment of tax and without declaration of forms 'C'. The AA while finalising the assessment in June 2006, allowed the deduction of ₹ 3.35 crore treating it as tax free goods under Schedule 'B' of HVAT Act instead of levying tax at the prescribed rates. This resulted in non-levy of VAT amounting to ₹ 33.49 lakh.

After we pointed out the case in September 2010, the AA, Sonapat stated in September 2011 that the case could not be reassessed at this stage. However, the facts remains that due to non taking of timely action amount remained unrecovered.

2.2.16 Excess availment of tax deferment/exemption

Under HGST Rules, eligible industrial unit may avail benefit of exemption/deferment up to the quantum and period as prescribed in the eligibility certificate.

During test check of the registers of offices of DETC (ST), Panipat and Rewari in June and October 2010, we noticed that the amount of deferment/exemption of ₹ 5.62 crore was due against which benefit of deferment/exemption amounting to ₹ 5.87 crore was availed by four units. So exemption/deferment of tax amounting to ₹ 25 lakh availed in excess of the quantum prescribed in the eligibility certificate was to be recovered by the Department.

After we pointed out the case in June and October 2010, DETC (ST), Panipat stated in September 2011 that demand of ₹ 15.77 lakh had been created in one case and in another case an amount of ₹ 9.03 lakh out of ₹ 12.90 lakh had been deposited along with interest of ₹ 7.40 lakh and notice had been issued in April 2011 to recover the balance amount. DETC (ST), Rewari stated in June 2010 that excess amount would be recovered in due course. We have not received further progress report (October 2011).

A point of similar nature was printed in the Report of the Comptroller and Auditor General of India for the year 2001-02 and was discussed in PAC during the year 2007-08. In nine cases PAC has desired the latest status of amount to be recovered. Out of nine, in one case follow up action was yet to be taken by Government.

2.2.17 Non/short levy of interest

Under Section 61(2) (d) (iii) of the HVAT Act, an industrial unit availing the benefit of deferment of payment of tax, whether by change over under the provisions of the Act or otherwise, may, in lieu of making payment of the deferred tax after five years, pay half the amount of tax deferred upfront along with the returns and on making payment in this manner, the tax due according to the returns shall be deemed to have been paid in full. If the tax calculated is more than the input tax, the difference of the two shall be the tax payable.

During test check of the records of the offices of DETC (ST), Bhiwani and Palwal between September 2010 and February 2011, we noticed that four dealers who opted to pay 50 *per cent* upfront payment of due tax along with returns under Section 61 (2) (d) (i) (iii) had not paid due tax with returns. The AA, while finalising the assessment for the years 2003-04 to 2006-07 between August 2006 and March 2010 raised demand of ₹ 23.81 lakh, without levy of interest amounting to ₹ 20.31 lakh.

After we pointed out the cases between September 2010 and February 2011, DETC (ST) Bhiwani stated in February 2011 that two cases

were under examination and in another case the demand was due to wrong calculation of tax by the dealer. The reply of DETC (ST) Bhiwani was not in consonance with the provisions of the HVAT Act as the dealer had to pay due tax along with return and AA had to check correctness of tax deposited. Neither the dealer had paid due tax along with the return nor the AA check the correctness of tax due/deposited with return. We have not received reply from DETC (ST), Palwal in the remaining two cases (October 2011).

2.2.18 Excess benefit of tax deferment due to non-adjustment of input tax credit

Section 14 (6) of HVAT Act, *inter alia* lays down that if any dealer fails to make payment of tax, he shall be liable to pay in addition to the tax payable by him, simple interest at one and half *per cent* (one *per cent* with effect from 11 October 2007) per month, if the payment is made within ninety days and at three *per cent* per month (two *per cent* with effect from 11 October 2007) if the default continues beyond ninety days for the whole period from the last date specified for the payment of tax to the date he makes payment.

During test check of the assessment records of the office of DETC (ST), Panipat in March 2008, we noticed a dealers availing the benefit of exemption from payment of tax of ₹ 1.61 crore during the period December 1998 to November 2007 had opted to pay 50 *per cent* of the tax in lieu of deferment of payment of tax under the HVAT Act/Rules. The dealer had made sale of goods valued as ₹ 6.52 crore involving tax of ₹ 26.07 lakh during the year 2004-05. After adjusting ITC of ₹ 14.55 lakh

paid on purchase of goods, the balance tax payable was ₹ 11.52 lakh. The dealer was entitled to concession of 50 *per cent* of deferred tax (₹ 11.52 lakh) of ₹ 5.76 lakh. The AA, while finalising the assessment in May 2006 allowed ₹ 13.04 lakh (50 per cent of total tax) instead of ₹ 5.76 lakh. This resulted in excess concession of tax of ₹ 7.27 lakh. Additionally interest amounting to ₹ 7.27 lakh was also leviable on default in tax demand.

After we pointed out this case in March 2008, the DETC (ST) Panipat stated in January 2011 that revisional authority had created the demand of ₹ 14.54 lakh. We have not received further progress of recovery (October 2011).

2.2.19 Non- monitoring of exempted/deferred units

To ascertain the amount of sale tax deferred/exempted, DETC (ST) of each district was required to review the performance of each eligible industrial unit and to send a quarterly report to the ETC in the following month. None of the DETC of 10 districts checked, sent quarterly performance reports to the ETC, Panchkula and no any action was taken by ETC against DETC for non-submission of prescribed quarterly reports. Thus, non-monitoring of exempted/deferred units resulted in non-raising of demand of tax and interest amounting to ₹ 134.69 crore as detailed below:

2.2.19.1 Non-maintenance of production level

Under HGST Rules, the benefit of tax exemption/deferment shall be subject to the condition that the beneficiary unit after having availed of the benefit shall continue its production at least for the next five years and not below the level of average production for preceding five years. In case of not opting the scheme under Section 61 of HVAT Act, the industrial unit shall be liable to maintain production at a level so that its annual turnover does not fall short of the average annual turnover during the periods of exemption. The DETC is required to watch production levels. In case the unit violates the condition it shall be liable to make, in addition to the full amount of tax benefit availed of by it during the period of exemption/deferment, payment of interest chargeable under the Act as if no tax exemption/deferment was ever available to it.

During test check of the records of the offices of seven DETCs (ST) between June 2010 and February 2011, we noticed that 36 units after availing the exemption/deferment of ₹ 70.77 crore did not maintain the level of production to the extent of average production for the prevailing five years and thus, they were liable to refund the full amount of tax exemption benefit along with interest and in case of units availing deferment were liable to pay interest, if deferred tax paid. Concerned DETCs (ST) did not raise the demand of benefit availed along with interest amounting to ₹ 130.82 crore as detailed below:

(₹ in crore)

Name of DETC (ST)	No. of Units not maintained average production		Amount of benefit availed		Amount to be recovered		Total
	Exemption	Deferment	Exemption	Deferment	Exemption	Interest	
Gurgaon (West)	8	1	5.91	1.87	5.91	7.78	13.69
Gurgaon (East)	12	1	47.86	0.55	47.86	48.41	96.27
Sonepat	3	1	0.72	0.28	0.72	1.00	1.72
Panipat	5	-	3.13	-	3.13	3.13	6.26
Faridabad (West)	-	1	-	1.38	-	1.38	1.38
Rewari	-	1	-	6.64	-	6.64	6.64
Hisar	3	-	2.43	-	2.43	2.43	4.86
Total	31	5	60.05	10.72	60.05	70.77	130.82

After we pointed out these cases between June 2010 and January 2011, DETCs (ST), Gurgaon (East) and Gurgaon (West) stated between October 2010 and March 2011 that matter was under process in 19 cases and in three cases notices had been issued. Reply of DETC (ST) Gurgaon was not satisfactory as copy of notice issued to dealers was not found placed on file and in three cases notices were issued (February and March 2011) after the matter was pointed out by audit. Action taken in one case (March 2008) was also not finalised till April 2011. DETC (ST) Sonapat stated in September 2011 that in two cases demand of ₹ 1.31 crore has been created, in one case notice has been issued and in one case stated that action would be taken after completion of post benefit period. Reply in this case was not satisfactory, as average production was to be watched every year and not after completion of post benefit period and DETC Panipat stated in September 2011 that cases were under-examination. DETC (ST) Hisar stated in September 2011 that notices had been issued to take action. DETC (ST) Faridabad (West) stated in September 2011 that notice had been issued and DETC (ST) Rewari stated in June 2010 that action would be taken.

A point of similar nature was printed in the Report of the Comptroller and Auditor General of India for the year 2001-02 and was discussed in PAC during the year 2007-08. In 13 cases PAC has desired the latest status of amount to be recovered. The follow up action in respect of 11 cases was still awaited.

2.2.19.2 Non-recovery of tax

Under HGST Rules, the exemption/entitlement certificate granted to an eligible industrial unit shall be liable to be cancelled by the DETC concerned either in the case of discontinuance of its business by the unit any time for a period exceeding six months or its closing down during the period of exemption/deferment. Further, under the rules *ibid* on cancellation of eligibility certificate or exemption/entitlement certificate before it is due for expiry the entire amount of tax exempted/deferred shall become payable immediately in lump sum and the provision relating to recovery of tax, interest and imposition of penalty shall be applicable in such cases.

During test check of the records of offices of DETC (ST) Gurgaon (East) and Rewari, between June and August 2010, we noticed from the assessment records that in two cases {(one each of Rewari and Gurgaon (East))}, the industrial unit after availing exemption/deferment of ₹ 1.94 crore discontinued their manufacturing process during the currency period of exemption/deferment. The exemption/entitlement certificates were not cancelled by the DETCs (ST). Thus, ₹ 3.87 crore (including interest of ₹ 1.93 crore) remained unrecovered.

After we pointed out these cases between June and August 2010, DETC (ST) Rewari stated that action would be taken to recover the benefit availed by the dealers. DETC (Gurgaon East) stated in September 2011 that case was under

process. Reply was not acceptable as no document was found on the file to show that any action had been taken by the Department. We have not received further progress report (October 2011).

2.2.20 Internal audit

Internal audit system had not been set up in the Department in respect of assessment of sales tax cases.

On being pointed out in May 2010, the ETC stated that there is no special authority for internal audit of assessment cases.

2.2.21 Conclusion

The main objective of the Sales tax incentive scheme was overall industrial development of the State. It did not produce encouraging results, as a large number of units were closed during the currency period of the incentives. The progress made in industrial development was not watched. Excess availment of tax deferment/concession, incorrect computation of fixed capital investment and non recovery of tax, due to closure of business demonstrate that the Department had not monitor the scheme but also that the expected benefit had not accrued to the State despite tax exemptions granted.

Database in respect of benefit allowed to number of units under the scheme and progress of the units, had not been kept at headquarters which shows that there was no monitoring at the level of headquarters and DETC level. The scheme was never been reviewed by the Department to evaluate the benefits derived by the State in terms of VAT/Sales Tax collection for formulating any new industrial policy in future.

2.2.22 Recommendations

In order to plug loopholes and enforce control over working of Excise and Taxation Department and Industries Department for proper evaluation and implementation of the scheme, Government may consider:-

- Maintaining a centralised database of incentives sanctioned and availed to help the State Government in formulating a new tax concession scheme in future;
- Putting a system in place for effective co-ordination between the implementing agencies and the Excise and Taxation Department for monitoring recoveries due and for taking prompt action on units closing business;
- Setting up a system to watch the proper functioning of units availing benefits of tax concession; and
- Instituting an effective system in the implementing agencies for initiating action for prompt recovery of the taxes and other dues.

2.3 Performance Audit on "Cross Verification of Declaration forms used in Inter State Trade"

2.3.1 Highlights

- The Department had not put in place a system for verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS Website before allowing exemptions/concession of tax.
- Exemptions/concessions were allowed in 47 transactions for the assessment years 2006-07 and 2007-08 against fake 'C' Forms which were not issued to the dealers, resulting in short levy of CST of ₹ 1.30 crore.

(Paragraph 2.3.12.1 and 2.3.12.2)

- Assessing Authority did not scrutinise the claims for concessional tax and cross verify the transactions as required under the Departmental instructions. This resulted in incorrect allowance of branch transfers on 'F' Forms, which consequently led to evasion of VAT of ₹ 4 lakh. Additionally, penalty was also leviable for evasion of tax.

(Paragraph 2.3.12.3)

- Non-verification of declaration Form 'C' by the Department resulted in suppression of sale of ₹ 2.88 crore involving underassessment of tax of ₹ 23.09 lakh. Besides, penalty was also leviable for misdeclarations.

(Paragraph 2.3.13)

- In absence of a system to check utilisation statements of Declaration Forms, Mismatches between the selling and purchasing dealers as per the forms were not detected by the Assessing Authorities. Evasion of tax in these cases cannot be ruled out.

(Paragraph 2.3.14)

2.3.2 Introduction

Under the Central Sales Tax Act, 1956 (CST Act), registered dealers are eligible to certain concessions and exemptions of tax on interstate transactions on submission of prescribed declarations in Forms 'C' and 'F'. The State Government grants these incentives to dealers for furtherance of trade and commerce, on production of these declaration forms. It is the responsibility of the Commercial Tax Department to ensure proper accountal of declaration forms and to take adequate safeguards against misutilisation of declaration forms/certificates on which tax relief is allowed involving large amount of revenue to the State exchequer.

It is the responsibility of the State Excise and Taxation Department to ensure proper accountal of declaration forms and to take adequate safeguard against misutilisation of these forms on which tax relief is allowed involving large amount of revenue to the State exchequer.

2.3.2.1 Form 'C'

Under the provisions of the CST Act, every dealer, who, in the course of interstate trade or Commerce, sells to a registered dealer, goods of the classes, specified in the certificate of registration of the purchasing dealer, shall be liable to pay tax at the concessional rate of four *per cent*, three *per cent* with effect from 1 April 2007 and two *per cent* with effect from 1 June 2008 respectively of such turnover provided such sales are supported by Declarations in form 'C'.

2.3.2.2 Form 'F'

Under Section 6A of CST (Amendment) Act 1972, transfer of goods not by reason of sales by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempt from tax on production of declaration in form 'F', duly filled in and signed by the principal offices of the other place of business or his agent or principal as the case may be, along with the evidence of despatch of such goods. Such authority may, after affording such dealer a reasonable opportunity of being heard, direct him to pay by way of penalty, in addition to the tax to which he is assessed or is liable to be assessed, a sum thrice the amount of tax which would have been avoided had such account, return, document or information, as the case may be, accepted as true and correct.

2.3.3 Maintenance of accounts of receipts and use of Declaration forms

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

2.3.4 Receipt and issue of Forms

- The receipt and issue of the aforesaid declaration forms are accounted for in separate stock registers by the division and circle offices indicating receipt and issue of various declaration forms. When the forms are issued to the dealer, the signature of the dealer as token of receipt is to be obtained in the register.

- Every registered dealer to whom any declaration form is issued by the appropriate authority shall maintain complete account of every such form. The dealer has to furnish utilisation certificate to the competent authority showing the name of dealer to whom the form is issued, bill number and date and description of goods with value.
- Section 10 (b) read with Section 10-A of CST Act stipulates that, if any registered dealer, falsely represents when purchasing any class of goods which are covered by his certificate of registration or not being a registered dealer, falsely represents when purchasing goods in the course of interstate trade or commerce that he is a registered dealer or after purchasing any goods for any of the purposes without reasonable excuse to make use of the goods for any such purpose shall be punishable with simple imprisonment which may extend to six months, or with fine, or with both, and when the offence is a continuing offence, with a daily fine which may extend to fifty rupees for everyday during which the offence continues and further the authority may also impose penalty of a sum not exceeding one and a half times of the tax evaded.

2.3.5 Operation of the Tax Information Exchange System (TINXSYS)

- Tax Information Exchange System (TINXSYS) is a centralised exchange of all Interstate dealers spread across the various States and Union Territories of India. TINXSYS is an exchange authored by the Empowered Committee of State Finance Ministers (EC) as a repository of interstate transactions taking place among various States and Union Territories. The website was designed to help the Commercial Tax Departments (CTDs) of various States and Union Territories to effectively monitor the interstate trade. TINXSYS can be used by any dealer to cross verify the counter party interstate dealer in any other State. Apart from dealer verification Commercial Tax Departments official used TINXSYS for verification of Central Statutory Forms issued by other State Commercial Tax Departments and submitted to them by dealers in support of claim for concessions. TINXSYS also provides MIS and business Intelligence Reports to the Commercial Tax Department to monitor interstate trade movements and enable the EC to monitor the trends in interstate trade.

2.3.6 Organisational Setup

At the Government level, Financial Commissioner and Principal Secretary, Excise and Taxation Department (FCET) is responsible for administration of sales tax laws in the State. At the Departmental level, the ETC is responsible for the administration of Sales Tax/VAT/CST Acts and rules framed thereunder. The ETC is assisted by Additional Excise and Taxation Commissioners (AETCs), JETCs, DETCs (ST), Excise and Taxation Officer (ETOs) and other allied staff at headquarters, Range and division level.

2.3.7 Audit Objective

The review aims to ascertain whether:

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

2.3.8 Audit criteria

The audit findings were benchmarked against the following audit criteria:-

- Central Sales Tax Act, 1956, Central Sales Tax Rules, 1957
- Central Sales Tax (Haryana) Rules, 1956
- Haryana VAT Act, 2003
- Departmental Notifications and Circulars issued regarding exemption from payment of CST in respect of industrial units.

2.3.8 Scope and Methodology of Audit

The audit covered the period of 2007-08 to 2009-10 and was conducted from September 2010 to February 2011 with reference to the records relating to scrutiny of forms covering all assessments of 15 units⁶. Audit scrutiny also included verification of transaction of goods relating to stock transfers made to branches/agents situated outside Haryana State and interstate sale to different parts of the country with reference to various declarations in Form 'C' and 'F', as verified from records in those States by our field Accountant General

⁶. Bahadurgarh, Charkhi Dadri, Faridabad (East), Faridabad (West), Gurgaon (East), Gurgaon (West), Karnal, Kaithal, Kurukshetra, Palwal, Panipat, Rewari, Sonapat, Gohana and Shahbad.

Offices. Similar points noticed during regular audit of DETC, Jhajjar at Bahadurgarh and Panipat during the year 2010-11 have also been included here.

2.3.9 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Excise and Taxation Department for providing necessary information and records for audit. An entry conference was held on 30 May 2011 with the Financial Commissioner and Principal Secretary to Haryana Government, Excise and Taxation Department. The audit objectives, scope and methodology of audit and selection of districts for the review were discussed during entry conference. We forwarded the draft review report to the Department and Government in October 2011. An exit conference was held on 17 November 2011 with the Financial Commissioner and Principal Secretary to Haryana Government (Excise and Taxation Department). During the exit conference, the findings of the review and recommendations were discussed. The replies furnished by the Department during exit conference and at other times have been appropriately incorporated in the respective paragraphs.

2.3.10 Trend of revenue under CST

The variations between Budget estimates (BEs) and actual receipts under CST for the years 2006-07 to 2010-2011 are mentioned below:

(₹ in crore)

Year	Budget estimates	Actual realisation as per Finance Accounts	Actual realisation as per Department	Variation excess (+) shortfall(-) (Col. 3-Col.2)	Percentage of variation (Col. 5 to Col.2)
1	2	3	4	5	6
2006-07	15.50	15.41	15.41	(-) 0.09	1
2007-08	22.62	13.57	15.07	(-) 9.05	40
2008-09	14.03	11.20	15.20	(-) 2.83	20
2009-10	8.79	10.90	22.67	(+) 2.11	24
2010-11	14.50	12.64	28.62	(-) 1.86	13

From the above table, it may be seen that actual receipts as per Finance Accounts were less than BEs during the years 2006-07 to 2008-09 and 2010-11 whereas the actual receipts were more than BEs only in 2009-10. The percentage of variation during 2006-07 to 2010-11 ranged between one and 40. The main reason for decline in CST collection was due to reduction of CST from four *per cent* to three *per cent* by the GOI.

Audit Findings

Printing and custody of declaration forms

We noticed that the ETC prepared a consolidated demand of forms 'C' and 'F' Forms as per requirement. The Controller of printing and stationery was the nodal Department to initiate action for the printing of these forms. Forms were got printed from private printers after completing all formalities. Size of forms and LOGO was also approved by the ETC. An officer was deputed by the ETC for adequate security and supervision. The stocks of these forms were reviewed from time to time by the Department. A separate room was used for the custody of these forms.

System deficiencies

Section 8 of the CST Act read with Rule 7 of the Central Sales Tax (PB), Haryana Rules, 1957 and Rule 12 of Central Sales Tax (Registration and Turnover) Rules, 1957 deal with the procedure about custody, utilisation and maintenance of forms. Scrutiny of the records revealed the following:

2.3.11.1 Issue and accounting of declaration forms

- We noticed that the Department did not maintain any record/ database to show the year-wise position of sales against 'C'/'F' Forms.
- There was no system in place to verify the utilisation statements of declaration forms.

2.3.11.2 Utilisation of declaration forms

- The Department had partly made these forms mandatory for the dealers to furnish the declaration forms while submitting in the wake of implementation of VAT Act;
- There was no system of calling for the utilisation statements from the dealers at the time of scrutiny of return/conducting tax audits, in case these were not available in the case records;
- The Department had not put in place a system for verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS Website before allowing exemptions/concession of tax;
- The Assessing Authority did not have any details of the branches of the dealers to verify the authenticity of claims for exemption; and
- There was no prescribed time limit for utilisation of declaration forms.

2.3.11.3 Enforcement measures

Declaration Forms 'C' and 'F' in the custody of a dealer, which were found lost, destroyed, stolen or defective were required to be reported to the concerned authority for taking necessary action to declare such forms as

invalid by giving wide publicity through issue of circulars to all divisions etc. Similar action in respect of Forms in the custody of the Department was also to be taken. Scrutiny of the records, however, revealed that:

- no notification/circular regarding such cases was either issued by the Department or details intimated to other State Governments for appropriate action; and
- the Department had not set-up any intelligence wing to assist ETC for providing the information of fake forms.

During the exit conference, the Excise and Taxation Department admitted the audit observation and agreed that there was need to look into this aspect and would be taken care of.

Compliance deficiencies

2.3.12 Evasion of tax by fraudulent utilisation of fake forms

2.3.12.1 Cross verification of 'C' forms pertaining to interstate sale by the dealers of Haryana with the utilisation account of declaration forms/dealers of goods received through interstate purchases made by the dealers of four⁷ States revealed that four (4) dealers under the control of three⁸ DETCs had claimed and were allowed exemption/concessional rate of CST in 11 forms amounting to ₹ 5.06 crore between 2007-2008 to 2009-10 for the assessment year 2006-07 against forms which were not issued to the purchasing dealers in those States. Thus, these forms being prima facie 'fake', the sales should be disallowed and differential tax of ₹ 30.25 lakhs is recoverable. Besides penalty was also leviable under the Act.

Section 8 (4) of the CST Act provides that the concession under sub section (1) shall not apply to any sale in the course of interstate trade or commerce unless the dealer selling the goods furnishes to the prescribed authority in the prescribed manner a declaration duly filled and signed by the registered dealer to whom the goods are sold containing the prescribed particulars in the prescribed form obtained from the prescribed authority.

2.3.12.2 Cross verification of 'C' and 'F' Forms pertaining to interstate sale by the dealers of Haryana with the utilisation account of declaration forms/dealers of goods received through Interstate purchase by the dealers of Delhi State revealed that six dealers under the control of two DETCs had claimed and were allowed exemption/concessional rate of CST in 36 forms amounting to ₹ 12.15 crore during 2009-10 for assessment year 2006-07 and 2007-08 against fake forms which were not issued to the dealers. This resulted in short levy of CST of ₹ 1 crore. Besides, penalty was also leviable under the Act.

⁷ Arunachal Pradesh, Bihar, Chhatisgarh and Uttar Pradesh.

⁸ Faridabad (East), Faridabad (West) and Rewari.

Under Section 6A of the CST Act, transfer of goods from one State to another place of business in another State is exempt from levy of tax on production of 'F' forms and if any dealer fails to prove to the satisfaction of the AA the claim of transfer of goods, then the movement of such goods shall be deemed for all purposes of this Act to have been occasioned as a result of sale. The ETC issued instructions in March 2006 that in the cases of specific traders (selected for scrutiny) all transactions totaling more than ₹ one lakh from a single VAT dealer in a year should be cross verified to detect evasion of VAT.

2.3.12.3 During test check of the records of the office of DETC (ST), Kaithal in July 2009, we noticed that a dealer claimed deduction of consignment sale of goods valued as ₹ 4.19 crore against declaration in forms 'F' during the year 2005-06. The AA, while finalising the assessment (March 2009), allowed the deduction without cross verifying the transactions under form 'F' relating to transfer of goods to branches outside the State. We conducted cross verification of records with other States 'TINXSYS' in August 2009 and noticed that the dealer had suppressed his sales by submitting declaration forms to the tune of ₹ 49.98 lakh, which was not issued to the dealer by that State. Thus, these forms being prima facie "fake". Failure on the part of AA to scrutinise the claim and cross verify the transactions as required in the ETC instructions dated 14 March 2006 resulted in incorrect allowance of deduction which consequently led to evasion of VAT of ₹ 4 lakh. Additionally, penalty was also leviable for evasion of tax.

After we pointed out the case in July 2009, ETO, Kaithal stated in August 2009 that the form had been verified from issuing authority and found fictitious as the same was not issued by the issuing authority (VAT officer), Delhi. DETC (ST), Kaithal stated (November 2011) that 'F' form was not found genuine. Tax and penalty was imposed by the ETO-cum-AA (August 2011) by creating demand of ₹ 15.99 lakh. Efforts would be made to recover the outstanding amount.

Further, during the exit conference, the Excise and Taxation Department accepted the audit observation (November 2011) and the Financial Commissioner and Principal Secretary instructed his officer to issue necessary instructions to DETC, Kaithal for getting registered criminal case against the offending dealer.

2.3.13 Concealment of sales

We noticed during cross verification of the assessment records of a selling dealer pertaining to interstate sale of Haryana with utilisation account of declaration forms/dealer of goods received through Interstate purchase by the dealer of Tamilnadu that the dealers under the control of the DETC, Rewari had claimed and allowed (February 2010) concessional rate of CST in one case during 2009-10 for assessment year 2006-07 amounting to ₹ 1.33 crore

whereas the purchasing dealers of Tamil Nadu had shown his purchases of ₹ 4.21 crore against the same form. Thus, sale of ₹ 2.88 crore (₹ 4.21 crore minus ₹ 1.33 crore) was suppressed by the selling dealers. Non-verification of declaration form by the Department resulted in underassessment of tax amounting to ₹ 23.09 lakh based on the presumption that these goods have been sold locally in the State. Besides, penalty was also leviable under the Act.

After we pointed out the case (October 2011), the Excise and Taxation Department admitted the facts (November 2011), during the exit conference.

2.3.14 Irregular grant of concession/exemption on invalid forms/forms issued to other dealers

We noticed during cross verification of 'C' and 'F' Forms pertaining to interstate sale by the dealers of Haryana with utilisation account of declaration forms/dealers of goods received through Interstate purchase by the dealers of two⁹ States, that six dealers under the control of five¹⁰ DETCs (ST) had claimed and allowed exemption/concessional rate of CST in 13 'C' and 'F' forms amounting to ₹ 6.56 crore during 2007-08 to 2009-10 for assessment year 2005-06 to 2007-08. Our verification revealed that the names of the purchasing dealers in the utilisation statement did not match with the Form numbers on which the goods were sold by the selling dealers. Thus, there was a mismatch between the name of the dealer to whom the goods were sold and the dealer who had purchased those goods. In the absence of a system to check the utilization statements, these discrepancies remained undetected. The matter requires, investigation to arrive at evasion of tax liability, if any.

After we pointed out the case (October 2011), the Excise and Taxation Department admitted the facts (November 2011) during the exit conference.

2.3.15 Short/non-accounting of goods imported through use of declaration form

Test Check of records as well as cross verification of assessment records of purchasing dealers pertaining to interstate sales of the dealers of Haryana with the assessment records of selling dealers received from Rajasthan State revealed that dealer under the control of DETC, Faridabad (West) had not accounted for his purchase of ₹ 4.01 crore in his books of accounts thereby concealing purchases worth ₹ 4.33 crore (after adding eight *per cent* profit during 2007- 2008 to 2009-10 as done for assessment year 2007-08). Failure of the assessing authority to cross verify the information with other States resulted in underassessment of tax of ₹ 2.16 crore (including penalty of ₹ 1.62 crore) under the Act.

After we pointed out these cases in June 2011, the Assessing Authority has reassessed the case and created additional demand of tax of ₹ 2.10 crore in July 2011. The Excise and Taxation Department admitted (November 2011) the facts during the exit conference.

⁹ Delhi and Orissa.

¹⁰ Gurgaon, Jhajjar, Panipat, Palwal and Sonapat.

2.3.16 Conclusion

It is evident that due to systemic deficiencies and non-compliance with the provisions the Act/Rules, inadequate and improper check of the forms by the assessing officers and weak internal control mechanism, there was short levy of tax and revenue loss to the State Government. As such, the possibility of such cases of incorrect concession granted under various declaration forms at other places not checked by us, cannot be ruled out.

2.3.17 Recommendations

It is recommended that the Government may consider the following steps:

- Putting in place an effective internal control mechanism to avoid extension of irregular exemption on account of deficient/incomplete forms at the time of completion of assessment;
- instituting system for cross verification of transactions relating to branch transfers within the stipulated time frame;
- there should be time limit for utilisation of declaration forms;
- proper checks should be prescribed and exercised to call for utilisation certificates of declaration forms from the dealers while submitting their tax returns; and
- to devise a system for uploading of details of declaration forms used on TINXSYS for verification of sale/purchase transactions.

During the exit conference in November 2011, the Financial Commissioner and principal Secretary, Excise and Taxation Department accepted all the recommendations.

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

The HGST Act/HVAT Act/Central Sales Tax Act, 1956 (CST Act) and Rules made thereunder provide for:-

- (i) levy of tax/penalty at the prescribed rate;*
- (ii) exemption from payment of tax to new industries under the HGST Act, who opt for deferment of tax under the HVAT Act on fulfilment of prescribed conditions;*
- (iii) allowance of ITC as admissible; and*
- (iv) Section 14 (6) of the HVAT Act inter alia lays down that if any dealer fails to make payment of tax, he shall be liable to pay, in addition to the tax payable by him, simple interest at one and half per cent (one per cent with effect from 11 October 2007) per month if the payment is made within ninety days, and at three per cent per month (two per cent with effect from 11 October 2007) if the default continues beyond ninety days for the whole period, from the last date specified for the payment of tax to the date he makes the payment.*

We noticed that the AAs, while finalising the assessments, did not observe the provisions of the rules in the cases mentioned in the paragraphs 2.4.1 to 2.4.5. This resulted in non/short levy/non-realisation of tax/interest/ penalty of ₹9.53 crore.

2.4.1 Non/short levy of value added tax and interest

Under Section 61 (2) (d) (iii) of the Haryana Value Added Tax Act, 2003 (HVAT Act), an industrial unit availing the benefit of deferment of payment of tax, whether by change over under the provisions of the Act or otherwise, may, in lieu of making payment of the deferred tax after five years, pay half of the amount of the deferred tax upfront along with the returns and on making payment in this manner, the tax due according to the returns shall be deemed to have been paid in full. If the tax calculated is more than the input tax, the difference of the two shall be the tax payable. Further, Rule 40 (4) of the HVAT Rules, 2003 provides that the tax due required to be paid by a VAT dealer for a tax period shall be the output tax, calculated under sub-rule (1), plus the purchase tax, calculated under sub-rule (2), minus the input tax, calculated under sub-rule (3).

2.4.1.1 During test check of the records of office of DETC (ST), Gurgaon (West) in July 2010, we noticed that a dealer having a main unit and four other expansion/diversification units availing the benefit of deferment had made sale of goods valued as ₹ 1,465.88 crore involving tax of ₹ 59.29 crore during the years 2003-04 to 2005-06. The dealer had claimed input tax credit (ITC) of ₹ 46.61 crore on the purchase of raw material valued as ₹ 1,144.10 crore for his main unit and for other expansion/diversification units which were enjoying the benefit of deferment. Units availing benefit of exemption/deferment of tax had separate

entity regarding calculation of tax. The benefit of ITC of the material consumed in expansion units, availing the benefit of deferment, could not be admitted in main unit. The assessing authority (AA), while finalising the assessments between February 2007 and March 2009 allowed ITC of ₹ 46.61 crore including ITC of ₹ 4.26 crore on the material transferred (₹ 106.43 crore) to expansion units, which were also availing the benefit of deferment. This resulted in non/short levy of VAT of ₹ 7.52 crore (including interest of ₹ 3.26 crore) in main unit and excess deferment in the expansion units.

After we pointed out the case in July 2010, ETO Gurgaon (West) stated in July 2010 that the dealer had booked all the purchases in the main unit and claimed ITC and that it was not binding on the dealer to divide the ITC between the main unit and its ancillaries on pro-rata basis. The reply of the ETO was not in consonance with the provision of HVAT Act as each unit availing benefit of exemption/deferment of tax had separate entity regarding calculation of tax. However, the ETC admitted the facts during a special meeting held with him by us on 15 September 2011. We had not received report on recovery and action taken to levy interest (October 2011).

We pointed out the matter to the ETC, Excise and Taxation Department in July 2011 and reported to the Government in October 2011; we are yet to receive their reply.

2.4.1.2 During test check of the records of the office of DETC (ST), Ambala Cantonment in October 2010,

Under Section 14 (3) of the HVAT Act, every dealer whose aggregate liability to pay tax under this Act and the Central Act according to the returns filed by him is equal to or more than ₹ one lakh or such other sum, computed by him in accordance with the provisions of this Act and the rules made thereunder; provided that if he is not able to quantify his tax liability accurately by that time, he shall pay an amount equal to monthly average of his tax liability in the last year as tax provisionally, and he shall pay the balance, if any, on or before the twenty-fifth day of the month. Further, interest was liable under Section 14 (6) of the HVAT Act.

we noticed that a dealer deposited tax for the month of March 2007 of ₹ 15.39 crore on due date (out of ₹ 20.09 crore) and balance of ₹ 4.70 crore on 5 June 2007 against the due date of 15 April 2007 under Section 14 (3) of the HVAT Act. The AA, while finalising the assessment for the year 2006-07 in March 2010 did not levy interest on late deposit of tax of ₹ 4.70 crore for the month of March 2007. This resulted in non-levy of interest of ₹ 9.64 lakh.

After we pointed out the case in October 2010, the Excise and Taxation Officer (ETO)-cum-AA, Ambala cantonment admitted the facts and DETC-cum-Revisonal Authority created demand of ₹ 9.64 lakh in August 2011. We have not received report on recovery (October 2011).

2.4.2 Input tax credit allowed incorrectly

Under Section 8 (1) of the Haryana Value Added Tax Act, 2003 (HVAT Act) read with Rule 20 of the HVAT Rules, 2003, claim of input tax can be allowed to the purchasing dealer only when the tax has been deposited by the selling dealer. With a view to detect evasion of VAT by claiming fraudulent ITC by issue of forged tax invoices or fictitious accounting of goods neither purchased nor sold etc., the Excise and Taxation Commissioner (ETC) issued instructions in March 2006 for cross verification of all purchase transactions totaling more than ₹ one lakh from a single VAT dealer in a year. As per directions issued by the Joint Excise and Taxation Commissioners {JETCs (Range)} Faridabad and Gurgaon between June 2006 and February 2010, claim of input tax in respect of purchases made from enlisted dealers was admissible at nil rates for the years 2004-05 to 2007-08.

During test check of the records of eight¹¹ offices of DETC (ST) between February 2009 and November 2010, we noticed that 25 dealers purchased iron and steel, electrical goods, refractories, electronic goods and plywood valued at ₹ 23.42 crore from dealers within the State (Faridabad, Gurgaon, Karnal and Sonapat) during the years 2004-05 to 2007-08 and claimed input tax credit (ITC) of ₹ 1.40 crore. The AAs, while finalising the assessment between

April 2007 and March 2010, allowed ITC of ₹ 1.40 crore on purchases made from dealers from whom ITC was not permissible as per directions issued (February 2008) by the Departmental's authorities at Faridabad, Gurgaon etc. Failure on the part of AAs to get the purchases of these dealers verified as they were also declared dealers for allowing ITC at nil rate and to take action as per directions of JETCs (Range) resulted in incorrect allowance of ITC of ₹ 1.40 crore.

After we pointed out these cases between February 2009 and November 2010, DETCs Faridabad (West), Gurgaon (East) and Karnal stated between March and July 2010 that demand of ₹ 74.10 lakh had been created in seven cases between May 2009 and March 2010. DETCs Gurgaon, Karnal and Rewari stated that eight cases had been sent to Revisional Authority for suo motu action in June and November 2010. DETC Faridabad (East) stated that notice had been served to the dealer in one case. DETC Ambala city stated in June 2009 that the case had been referred to DETC (Inspection) to examine legality and propriety. DETC (East) Gurgaon, Karnal and Panipat stated in eight cases that the cases would be re-examined. We have not received further progress of recovery (October 2011).

¹¹ Ambala City, Faridabad (East), Faridabad (West), Gurgaon (East), Gurgaon (West), Karnal, Panipat and Rewari.

We pointed out the matter to the ETC, Excise and Taxation Department between April 2009 and January 2011 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

2.4.3 Incorrect allowance of input tax credit

Under Section 8 of the HVAT Act, input tax in respect of any goods purchased by a VAT dealer shall be the amount of tax paid to the State on the sale of such goods to him. Provided that where the goods purchased in the State are used or disposed of partly in the circumstances mentioned in Schedule E, no ITC on petroleum products and natural gas is admissible when used as fuel.

During test check of the records of the office of DETC (ST), Gurgaon (East) and Rewari between July and November 2010, we noticed that three dealers purchased liquefied petroleum gas (LPG) and furnace oil (FO) valued as ₹ 3.64 crore for use as a fuel during the year 2006-07 and claimed ITC. The AA, while finalising the assessment between August 2009 and March 2010, allowed ITC of ₹ 16.22 lakh though no ITC was admissible on purchases of petroleum products when used as fuel. This resulted in incorrect allowing of ITC of ₹ 16.22 lakh. Additionally, interest amounting to ₹ 13.34 lakh was also leviable under Section 14 (6) of HVAT Act.

After we pointed out the cases between July and November 2010, DETC (ST), Gurgaon (East) stated in October 2010 that the reassessment was framed and ITC on purchases of LPG disallowed and demand for ₹ 87,632 had been created. DETC (Rewari) stated that the case had been sent for taking suo motu action on 24 November 2010 and final reply would be sent in due course. We have not received report on recovery and reply regarding action taken to levy interest (October 2011).

2.4.4 Excess allowance of input tax credit due to mistake in calculation

Under Section 19 of HVAT Act, any taxing authority or appellate authority, may, at any time, within a period of two years from the date of supply of copy of the order passed by it in any case, rectify any clerical or arithmetical mistake apparent from the record of the case after giving the person adversely affected thereby a reasonable opportunity of being heard.

During test check of the records of the offices of DETC (ST), Gurgaon and Rewari in August 2008 and September 2009, we noticed that two dealers purchased spare parts valued as ₹ 92.02 lakh at concessional rate against declaration form D1 and sold as such during the year 2004-05. The assessing authorities (AAs), while finalising the assessments in February 2008, charged

differential tax at the rate of eight *per cent* on ₹ 92.02 lakh amounting to ₹ 7.36 lakh and added the same in output tax. Simultaneously, the AAs added ₹ 7.36 lakh in input tax credit (ITC) inadvertently. This resulted in allowing of excess ITC of ₹ 7.36 lakh.

After we pointed out these cases in August 2008 and September 2009, DETC (ST), Rewari stated in February 2011 that the matter was under consideration and audit would be informed as and when the case was decided. DETC (ST), Gurgaon stated in February 2011 that the provisions of HVAT Act suggested that if the State Government did not get any tax on the sale of such goods under HVAT/CST Act then only purchase tax was leviable. Here since spare parts had been sold by the dealer either locally or in the course of inter-State trade and commerce and tax had been paid to the State on sale thereof, no purchase tax was leviable. Since the State Government did not get the tax on the sale of these spare parts, the dealer could not be asked to pay any additional tax on either the purchase or on the sales. It is immaterial whether the tax is paid by the seller or purchaser. The reply was not in consonance with the objection as the AA has rightly calculated the differential tax but added the same to ITC wrongly. We have not received further progress report (October 2011).

We pointed out the matter to the ETC, Excise and Taxation Department in October and December 2008 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

2.4.5 Underassessment of value added tax due to application of incorrect rate

2.4.5.1 During test check of the assessment records of the office of DETC (ST), Karnal in October 2010, we noticed that a dealer availing benefit of fifty *per cent* concession under HVAT Act had sold pressure cookers valued as ₹ 52.40 lakh during the period from 1 April 2003 to 31 March 2005. The AA, while finalising the assessment between July 2007 and January 2008 levied tax at the rate of four *per cent* instead of correct rate of 12 *per cent*. Application of incorrect rate of tax resulted in underassessment of VAT of ₹ 8.38 lakh (including interest of ₹ 4.19 lakh).

Under Section 7 of the HVAT Act, VAT on all kinds of cooking appliances, cooking ranges, grills and microwave ovens and their parts and accessories is leviable at the rate of 12 *per cent* for the period from 1st April 2003 to 30 June 2005 and thereafter at the rate of four *per cent* under Schedule 'C' of the Act as clarified (January 2009) by the ETC, Haryana.

After we pointed out the case in October 2010, DETC (ST), Karnal stated in January 2011 and the Excise and Taxation Department stated in September 2011 that the tax had been levied correctly. The reply of the Department was not in consonance of the provisions of HVAT Act as pressure

cooker was taxable at the rate of 12 *per cent* up to 30 June 2005 under HVAT Act.

2.4.5.2 During test check of the records of the office of DETC (ST),

Under section 7(1) (a) (iv) of the HVAT Act, nuts, bolts, screws and fasteners being non specified in any item in any schedule, are leviable to tax at the general rate of 10 *per cent* upto 30 June 2005 and 12.5 *per cent* thereafter upto 28-12-2005. As per the Haryana Government notification dated 29 December 2005 issued under the HVAT Act, nuts, bolts, screws and fasteners are taxable as specified commodity (Sr. No. 100 C) under Schedule 'C' at the rate of four *per cent*.

Panchkula in February 2010, we noticed that a dealer sold nuts and bolts valued as ₹ 40.83 lakh (1 April to 30 June 2005: ₹ 13.24 lakh and July to December 2005: ₹ 27.59 lakh) during the year 2005-06. The AA, while finalising the assessment in March 2009, levied tax at the lower rate (four *per cent*) instead of correct rate (10/12.5 *per cent*). Application of incorrect rate of tax resulted in underassessment of ₹ 6.28 lakh {including interest of ₹ 3.14 lakh under Section 14 (6) of the Act}.

After we pointed out the case in February 2010, ETO, Panchkula stated in February 2010 that the rate of tax on nuts and bolts had been found valid and the case was being sent to revisional authority for taking suo motu action. Further, DETC (Inspection) cum-revisional authority, Panchkula stated in July 2011 that the AA has correctly levied tax at the rate of four *per cent*. The reply was not in consonance with the provision of the HVAT Act as the nuts and bolts were taxable at the rate of four *per cent* with effect from 29 December 2005. We have not received further progress report and reply regarding action taken to levy interest (October 2011).

We pointed out the matter to the ETC, Excise and Taxation Department between March 2010 and February 2011 and reported to the Government in March 2011; we are yet to receive their reply (October 2011).

2.5 Incorrect determination of classification/turnover

The HVAT Act, CST Act and Rules framed thereunder provide for:-

- (i) disclosure of actual turnover by the dealer in the returns;*
- (ii) levy of tax/interest/penalty at the prescribed rate;*
- (iii) accurate determination of classification of goods by the AAs at the time of assessment; and*
- (iv) accurate determination of turnover at the time of assessment.*

We noticed that the AAs, while finalising the assessments, in the cases mentioned in the paragraphs 2.5.1 to 2.5.5, did not observe the provisions of the Act. This resulted in non/short levy/non-realisation of tax/interest/ penalty of ₹ 137.50 crore.

2.5.1 Incorrect deductions of High sea sale and Transit sale

2.5.1.1 High sea sale

Under Section 5 (2) of Central Sales Tax Act, 1956 (CST Act), a sale or purchase of goods shall be deemed to take place in the course of the import of the goods into the territory of India only if the sale or purchase either occasions such import or is effected by a transfer of document of title to the goods before the goods have crossed the customs frontiers of India. Further, Section 38 of Haryana Value Added Tax Act, 2003 (HVAT Act) read with Section 9 (2) of CST Act provides for levy of penalty for filing/claiming incorrect returns/ benefit of exempted sale, a sum equal to three times the tax which would have been avoided had such account, return, document or information, as the case may be, been accepted as true and correct.

During test check of the records of the office of DETC (ST), Faridabad (West) in August 2010, we noticed that a dealer of Faridabad (West) in pursuance of intent/order in September 2004 entered into agreement in May 2006 for supply of materials with Haryana Power Generation Corporation Limited, Panchkula (HPGCL). The dealer (contractor) after purchasing the materials from outside the Country valued at ₹ 561.07 crore between April 2006 and March 2007 and supplied the same directly to the site of works through their accounts. The dealer claimed benefit of exempted sales, under Section 5 (2) of the CST Act by furnishing proof of import and agreement for high sea sale, which was allowed by the assessing authority (AA) while finalising assessment in these cases in March 2010. Thus, the benefit claimed/allowed was neither justified nor correct. This resulted in underassessment of VAT of ₹ 70.13 crore. Additionally, penalty of ₹ 210.39 crore was also not levied.

After we pointed out this case in August 2010, the AA stated in November 2010 that the para was based on a single finding that endorsement/transfer of documents was in pursuance of pre-existing contract.

The issue of pre-existing contract was valid in the case of consignment/branch transfer but not in the case of high sea sales. The reply is contrary to the provisions of the Act as pre-existing contract is not valid in high sea sales and this is a case of contractor and contractee and the sales were liable to be taxed under the HVAT Act. Further, ETC Haryana admitted the case and issued guidelines in August 2011 to field offices in this regard. We have not received further progress report in these cases (October 2011).

2.5.1.2 Transit sale

Under Section 6 (2) of the CST Act, where a sale of any goods in the course of inter-State trade or commerce has either occasioned the movement of such goods from one State to another or has been effected by a transfer of documents of title to such goods during their movement one State to another, any subsequent sale during such movement effected by a transfer of documents of title to such goods to a dealer shall be exempt from tax, provided the dealer furnishes a certificate in prescribed form E-I or E-II obtained from selling dealer (s) and a declaration in form 'C' obtained from purchasing dealer (s). Thus, the contract of supply of goods must come into existence after commencement and before termination of inter-State movement of goods. Further, penalty under Section 38 was also leviable under the HVAT Act.

During test check of the records of the office of DETC (ST), Faridabad (West) in August 2010, we noticed that a dealer of Faridabad (West) entered into agreement in May 2006 for supply of materials with HPGCL. The dealer (contractor) after purchasing the materials from outside the State valued at ₹ 438.71 crore between April 2006 and March 2007 and supplied the same directly to the site of works through their accounts. As the supply of materials was done within the State, the sale transactions were to be taxed under the provisions of the HVAT Act. In spite of this, the dealer claimed benefit of exempted sales, under Section 6 (2) of the CST Act by furnishing proof of E-I, E-II and 'C' forms, which was also allowed by the assessing authority (AA) while finalising assessment in these cases in March 2010. Thus, the benefit claimed/allowed was neither justified nor correct. This resulted in under-assessment of VAT of ₹ 54.84 crore. Additionally, penalty of ₹ 164.52 crore was also not levied.

After we pointed out these cases in August 2010, the AA stated in November 2010 that the issue of pre-existing contract was valid in the case of consignment/branch transfer but not in the E-I/E II sales. The reply is contrary to the provisions of the Act as pre-existing contract is not valid and this is a case of contractor and contractee. However, the sales were liable to be taxed under the HVAT Act. We have not received further action taken in these cases (October 2011).

2.5.1.3 During test check of the records of the office of the DETC (ST), Faridabad (West), between August 2008 and September 2010, we noticed that six dealers of Faridabad (West) entered into agreements in eight cases for supply of materials with the purchasing dealers within and outside the State. The dealers, after purchasing the materials from within and outside the State supplied the same valued as ₹ 224.37 crore (local sales: ₹ 6.60 crore; outside the State: ₹ 217.77 crore) through his accounts directly to the purchasing dealers between April 2004 and March 2008. As the supply of material was done within and outside the State, the sale transactions were to be taxed under the provisions of the HVAT and CST Acts. In spite of this, the dealers claimed benefit of exempted sales under Section 6 (2) of the CST Act by furnishing E-I and 'C' forms which was also allowed by the AAs while finalising assessments in these cases between March 2008 and March 2010. Thus, the benefit claimed/allowed was neither justified nor correct. This resulted in underassessment of tax of ₹ 8.97 crore. Additionally, penalty of ₹ 26.92 crore was also leviable.

After we pointed out these cases between August 2008 and September 2010, the ETO, Faridabad (West) did not admit the audit observation in the case of one dealer for the year 2004-05 (August 2008) as sale should be conducted through transfer of documents of title to goods under Section 3 (b) of the CST Act and sale made during movement of goods from one State to another in interstate trade and commerce. Hence deductions of transit sales were rightly allowed against production of E-1 and 'C' forms. The reply is contrary to the provisions of the Act as the supply of materials was made in compliance of prior contract and sales were liable to be taxed under HVAT Act and CST Act. We have not received further report on action taken in these cases (October 2011).

We pointed out the matter to the ETC, Excise and Taxation Department between December 2008 and December 2010 and reported to the Government in June 2011; we are yet to receive their reply (October 2011).

2.5.2 Non-levy of value added tax on sale of HDPE fabrics

2.5.2.1 During test check of the records of four¹³ offices of DETC (ST)

Under the Haryana Value Added Tax Act, 2003 (HVAT Act), High Density Polythylene (HDPE) fabrics (plastic goods) are packing materials and industrial inputs and are being sold to various industrial units as packing materials, leviable to tax at the rate of four *per cent*. It has judicially been held¹² in June 2010 that HDPE fabrics (plastic goods) are covered under entry 'Industrial inputs and packing materials' as prescribed in entry 102 of Schedule 'C' and are leviable to tax at the rate of four *per cent*. Further, interest was also leviable under Section 14 (6) of the HVAT Act.

between September and December 2010, we noticed that eight cases of eight dealers made sale of HDPE fabrics valued as ₹ 13.42 crore during 2006-07 and 2007-08 without payment of tax. The assessing authorities, while finalising the assessments between August 2009 and March 2010, allowed the deductions of ₹ 13.42 crore treating it as tax free goods under Schedule 'B' of the HVAT Act. This resulted in non-levy of VAT amounting to ₹ 82.87 lakh including interest of ₹ 29.22 lakh.

After we pointed out these cases between September and December 2010, DETC Panipat and Rewari stated in two cases in November and December 2010 that the cases had been sent to the revisional authority for taking suo motu action. DETC Rohtak stated in August 2011 that all the five cases have been sent to revisional authority for taking suo motu action. We have not received further report on recovery and action taken to levy tax and reply in the remaining one case of Panipat (October 2011).

We pointed out the matter to the ETC, Excise and Taxation Department in January and February 2011 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

2.5.2.2 During test check of the records of office of DETC (ST), Sonapat in September 2010, we noticed that a dealer availing benefit of tax deferment made sales of HDPE fabrics valued as ₹ 13.56 crore (HVAT: ₹ 2.56 crore, CST: ₹ 11 crore) during the years between 2004-05 and 2007-08 without payment of tax and without declaration of forms 'C'. The AAs while finalising the assessments between June 2006 and August 2010, allowed the deduction of ₹ 13.56 crore treating it as tax free goods under Schedule 'B' of HVAT Act instead of levying tax at the prescribed rates. This resulted in non-levy of VAT amounting to ₹ 1.23 crore.

¹² M/s Rishab Farms and Industries Limited, Jhazzar STA No. 823 of 2009-10 37 PHT 305 (HTT) FB.

¹³ Panipat, Palwal, Rewari and Rohtak.

After we pointed out the case in September 2010, the AA Sonapat stated in March and September 2011 that additional demand of ₹ 26.52 lakh and ₹ 13.16 lakh respectively had been raised for the years 2006-07 and 2007-08. We have not received further report on recovery (October 2011).

2.5.3 Underassessment of tax due to incorrect computation of gross turnover

Under Section 9 of the Haryana Value Added Tax Act, 2003 (HVAT Act), read with Rule 49 of the HVAT Rules, 2003 provides that a works contractor may either pay lump sum tax at the rate of four *per cent* of gross receipts of works contract or pay tax on value of goods involved in the execution of works contract. The Rules permit the deductions for labour and other service charges only from total contract value for determining sale value of goods sold for levy of tax. Further, interest was also leviable under Section 14 (6) of the HVAT Act.

During test check of the records of the office of DETC (ST), Faridabad (West) in August 2008, we noticed that a dealer (contractor) had opted to pay lump sum tax in respect of works contract and received a total sum of ₹ 42.15 crore during 2004-05 as valuable consideration for the execution of the contract. The dealer claimed deduction of ₹ 1.62 crore representing the amount of works charged contract and paid tax on balance amount of ₹ 40.53 crore at the rate of four *per cent*. The assessing authority, while finalising the assessment in March 2008 also allowed the same, whereas the tax was to be charged on the total valuable consideration received. This resulted in underassessment of tax of ₹ 12.96 lakh (including interest of ₹ 6.48 lakh).

After we pointed out the case in August 2008, DETC (ST), Faridabad (West) stated in October 2011 that the gross receipts received by the dealer are inclusive of tax. The reply of the ETO was not in consonance with the provisions of the HVAT Act as this has clearly been mentioned in the HVAT Act that lump sum tax at the rate of four *per cent* of gross receipts of works contract was to be charged. We have not received further report on recovery (October 2011).

We pointed out the matter to the Excise and Taxation Commissioner, Excise and Taxation Department in September 2009 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

2.5.4 Evasion of value added tax due to Suppression of purchases and sale

Under Section 38 of the HVAT Act, if a dealer has maintained false or incorrect accounts or documents with a view to suppress his sales, purchases, or stock of goods, or has concealed any particulars or has furnished to or produced before any authority any account, return, document or information which is false or incorrect in any material particular, such authority may direct him to pay by way of penalty, in addition to the tax to which he is assessed or liable to be assessed, a sum thrice the amount of tax which would have been avoided had such account, return, document or information as the case may be, been accepted as true and correct. In order to prevent the tax evasion by fraudulent means, VAT provides for introduction of Tax Information Exchange System (TINXSYS) for proper tracing of inter-State sales transactions. Further, with a view to detect evasion of VAT by claiming fraudulent ITC by issuing forged tax invoices or fictitious accounting of goods neither purchased nor sold etc., the ETC issued instructions in March 2006 for cross verification of all purchase/sale transactions totaling more than ₹ one lakh from a single VAT dealer in a year.

During test check of the records of the offices of DETC (ST), Faridabad (West) and Rewari between April and November 2010, we noticed that the Department failed to implement comprehensive computerised system and the AAs had also not conducted cross verification of the transactions (even within their district jurisdiction) before finalising the assessments. We conducted cross verification of transactions of sales and purchases between April and November 2010 and noticed that four dealers sold goods valued as ₹ 28.99 crore to four dealers of Ambala City, Faridabad and Gurgaon and one dealer purchased goods valued as ₹ 1.17 crore from one dealer of Gurgaon during the years 2005-06 and 2006-07. These dealers had not shown these sales and purchases transactions in their accounts as well as in the quarterly returns submitted to the Department. Failure of the AAs to cross verify the transactions of sales and purchases before finalising the assessments between March 2009 and March 2010 despite ETC directions of March 2006, consequently led to evasion of VAT of ₹ 1.21 crore. Additionally,

penalty amounting to ₹ 3.62 crore was also leviable on suppression of sales and purchases.

After we pointed out these cases between April and November 2010, the ETO-cum-AA, Faridabad (West) reassessed four cases and levied VAT and penalty in August and September 2010 and issued demand notice under Section 17 of the HVAT Act. ETO-cum-AA Rewari stated in November 2010 that the case was being sent for suo motu action. We have not received further report on recovery and final action in respect of these dealers (October 2011).

2.5.5 Non-levy of purchase tax and penalty due to misuse of VAT-D1

Under Section 7 (3) of the HVAT Act, where taxable goods are sold by one dealer to another dealer, tax is leviable at a lower rate (four *per cent*) if the purchasing dealer furnishes a declaration in VAT-D1 certifying that the goods are meant for use in the manufacturing of goods for sale. Further, if an authorised dealer after purchasing any goods fails to make use of the goods for the specified purpose, the AA may impose upon him, by way of penalty, under Section 7 (5) of the HVAT Act, a sum not exceeding one and a half times the tax which would have been levied additionally. However, no penalty would be imposed if the dealer voluntarily pays the tax which would have been levied additionally under Section 7 (1) (a) of the HVAT Act along with the returns for the period, when he failed to make use of the goods purchased for the specified purpose.

During test check of the records of the office of DETC (ST), Panipat in October 2010, we noticed that a dealer enjoying fifty *per cent* benefit of tax concession under HVAT Act sold goods during the period 2004-05 and 2005-06 valued as ₹ 2.62 crore as such which were purchased at concessional rate against declaration in form VAT D1 for use in manufacturing. The dealer failed to make payment of additional tax along with returns. The AA, Panipat while finalising the assessment in January 2008 and March 2009 failed to levy tax additionally (normal tax leviable minus concessional tax levied) and penalty in one case. This resulted in non-levy of additional tax of ₹ 15.77 lakh and maximum penalty of ₹ 11.10 lakh.

After we pointed out the case in October 2010, the Department stated that there was no provision in the Act to levy additional tax. The reply of the Department was not in consonance with the provisions of Act whereas the assessee was also required to pay additional tax along with the returns and failure to pay the same attracts the provisions for levy of penalty in addition to levy of tax. We have not received further reply (October 2011).

CHAPTER III: STATE EXCISE

3.1.1 Tax administration

The excise revenue is mainly derived from the fixed, assessed and auction fee for the grant of license of various vends and excise duties levied on spirit and beer removed from distilleries and breweries and on that imported/exported to and from any other State. The Financial Commissioner and Principal Secretary to Government Haryana, Excise and Taxation Department is the administrative head at Government level and Excise and Taxation Commissioner (ETC) is head of the Department. He is assisted by the Collector (Excise) at headquarter and Deputy Excise and Taxation Commissioners (Excise) {DETCs (Excise)}, Excise and Taxation Officers (ETOs), Assistant Excise and Taxation Officers (AETOs), Inspectors and other allied staff for proper administration of State Excise Acts/Rules in the field.

3.1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 in respect of State Excise amounted to ₹ 107.81 crore of which ₹ 31.75 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears	State Excise receipts	Percentage of column 4 to column 5	Percentage of realisation of arrears (Col. 3 to col. 2)
1	2	3	4	5	6	7
2006-07	39.56	0.78	42.26	1,217.10	3	2
2007-08	42.26	2.57	52.31	1,378.81	4	6
2008-09	52.31	8.36	46.61	1,418.53	3	16
2009-10	46.61	2.75	84.96	2,059.02	4	6
2010-11	84.96	1.12	107.81	2,365.81	5	1

We observed that arrears of revenue had increased from ₹ 39.56 crore at the beginning of the year 2006-07 to ₹ 107.81 crore (173 per cent) at the end of the year 2010-11. The percentage of realisation of arrears to the arrears at the beginning of the year ranged between one and 16 per cent during the years 2006-07 to 2010-11. Though the actual receipts increased by 94 per cent (from ₹ 1,217.10 crore in 2006-07 to ₹ 2,365.81 crore in 2010-11).

The Government may advise the Excise and Taxation Department to take effective steps for collecting the arrears promptly to augment Government revenue.

3.1.3 Cost of collection

The gross collection of revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure of collection to gross collection for the relevant years are mentioned below:

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage
2006-07	1,217.10	12.09	0.99	3.30
2007-08	1,378.81	12.95	0.94	3.27
2008-09	1,418.53	18.46	1.30	3.66
2009-10	2,059.02	20.48	0.99	3.64
2010-11	2,365.81	21.57	0.91	-

3.1.4 Revenue impact of the Audit

3.1.4.1 Position of Inspection Reports

The performance of the Excise and Taxation Department to deal with the irregularities relating to State Excise detected in the course of local audit conducted during the year 2009-10 and the corresponding figures for the preceding four years is tabulated below:

(₹ in crore)

Year	Units audited			Cases accepted		Recovery made during the year	
	Number	Number of cases	Amount	Number	Amount	Cases	Amount
2005-06	45	14	13.56	14	13.56	1	0.16
2006-07	47	200	3.87	8	0.27	13	0.34
2007-08	41	826	41.83	231	4.68	17	0.28
2008-09	42	384	5.59	98	1.20	25	0.09
2009-10	36	377	3.95	251	3.76	42	0.22
Total	211	1,801	68.80	602	23.47	98	1.09

We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only five *per cent*.

3.1.4.2 Position of Audit Reports

During the last five years (including the current year's report), audit through its Audit Reports had pointed out non/short recovery of excise duty, license fee, penalty, non-recovery of cost of supervisory staff posted at the distillery etc., with revenue implication of ₹ 31.31 crore in 11 paragraphs (including one review). The Department/Government had accepted all the audit observations involving ₹ 31.31 crore and recovered ₹ 2.86 crore till 31 March 2011. The details are shown in the following table:

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	(₹ in crore)				(₹ in crore)	
	Number	Amount	Number	Amount	Number	Amount
2006-07	2	0.48	2	0.48	1	0.01
2007-08	2	1.23	2	1.23	1	0.03
2008-09	4	2.35	4	2.35	4	0.09
2009-10	2	5.65	2	5.65	2	0.10
2010-11	1 (Review)	21.60	1	21.60	1	2.63
Total	11	31.31	11	31.31	9	2.86

We observed that the recovery in respect of the accepted cases was 13 per cent. The slow progress of recovery even in respect of accepted cases is indicative of failure on the part of the heads of offices/Department to initiate action to recover the Government dues promptly.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the amount involved in accepted cases are promptly recovered.

3.1.5 Results of Audit

Test check of the records of the offices of DETC (Excise) relating to State Excise conducted in audit during the year 2010-11 revealed non/short recovery of excise duty, license fee and penalty etc. amounting to ₹ 25.18 crore in 179 cases which fall under the following categories:

(₹ in crore)

Sr. No.	Category	Number of cases	Amount
Excise and Taxation Department (State Excise)			
1.	Receipts from State Excise duty (Performance Audit)	1	21.60
2.	Miscellaneous irregularities	178	3.58
	Total	179	25.18

During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 24.17 crore involved in 102 cases, of which 101 cases involving ₹ 24.01 crore had been pointed out during 2010-11 and the remaining in earlier years. The Department recovered ₹ 2.79 crore in two cases during the year 2010-11, of which one case involving ₹ 2.63 crore related to the year 2010-11 and balance to earlier years.

A Performance Audit on “**Receipts from State Excise duty**” with financial impact of ₹ 21.60 crore is mentioned in the following paragraphs.

3.2 Receipts from State Excise Duty

3.2.1 Highlights

- The Department did not take action to recover the differential amount of license fee from 43 defaulting allottees of retail liquor outlets, after re-auction of vends at the risk and cost clause of the contract conditions, depriving the Government of revenue of ₹ 6.31 crore.

(Paragraph 3.2.10)

- The Department did not take action under the Rules to recover license fee from the defaulting 119 licensees of retail liquor outlets resulting in short recovery of license fee and interest of ₹ 4.65 crore.

(Paragraph 3.2.11.1)

- Non-levy of interest on delayed payment of monthly instalment of license fee by 576 licensees for the period April 2006 and December 2009, resulted in loss of ₹ 2.77 crore to Government exchequer.

(Paragraph 3.2.11.2)

- The Department did not initiate any action to recover penalty of ₹ 5.67 crore imposed on illicit country liquor and Indian Made Foreign Liquor by auctioning the confiscated vehicles. This inaction defeated the objectives of the penal provisions.

(Paragraph 3.2.12.1)

- The Department did not impose and recover minimum penalty of ₹ 88.53 lakh on confiscated country liquor defeating the objectives of the penal provisions.

(Paragraph 3.2.12.2)

- Penalty of ₹ 69.21 lakh was not recovered on short lifting of 2.20 lakh proof litres of liquor quota by the licensees.

(Paragraph 3.2.13.1 to 3.2.13.3)

- Lack of action to recover the security and additional security from 97 licensees resulted in short deposit of ₹ 1.18 crore.

(Paragraph 3.2.16)

3.2.2 Introduction

Excise duty on alcoholic liquor for human consumption and on medicinal and toilet preparations containing alcohol or opium, Indian hemp and narcotics in Haryana is levied and collected under the Punjab Excise Act, 1914 and Rules¹ made thereunder, as applicable to the State of Haryana. Excise revenue comprises of receipts derived from bid money and fixed license fee for the

¹ Punjab Excise Fiscal Orders, 1932; Punjab Liquor Permit and Pass Rules, 1932; Punjab Distillery Rules, 1932; Punjab Brewery Rules, 1956; Punjab Excise Bonded Warehouse Rules, 1957; East Punjab Molasses (Control) Act, 1948 and Rules made thereunder, and HLL Rules.

grant of retail and wholesale vends, fine for confiscation imposed/ordered, excise/export/import duty etc. It also includes revenue from manufacture, possession and sale of country liquor (CL), Indian made foreign liquor (IMFL) etc.

The Haryana Liquor License Rules, 1970 (HLL Rules) empower the Government to frame a periodical excise policy. Excise policy prescribes the procedure and fixation of reserve price and license fee for the grant of retail and wholesale vends, selling CL and IMFL. During 2009-10, there were 2,259 retail liquor outlets for sale of CL and 1,223 retail liquor outlets for sale of IMFL, besides the bars and beer shops. L-1B and L-1B1 wholesale licenses were issued to distilleries and breweries for wholesale supply to L-1 licensees. L-13 licenses are issued to distilleries for supply of CL to L-14A retail outlets. For sale of CL and IMFL, retail vends were auctioned upto 2005-06. Vends were allotted by draw of lots during the years 2006-07 to 2008-09 and by tender system from 2009-10. License in form D-2 for production of liquor is issued to a distillery on annual license fee of ₹ one crore and a license in form B-2 is granted to a brewery which produces beer for annual license fee of ₹ one crore, which work under the supervision of the staff of the Excise Department. License in form L-11 and L-15 for bottling of IMFL and CL respectively are issued to bottling plants on fixed license fee of ₹ 20 lakh. A license in form L1AB for wholesale of IMFL is prescribed for non-distiller brands on fixed license fee of ₹ 20 lakh and a license in form L-10C for promotion of PUB/Micro brewery projects is granted on fixed annual license fee of ₹ 2.5 lakh during the year 2009-10.

Quota for country liquor and Indian made foreign liquor outlets

A basic quota for each retail sale liquor outlet of CL as well as IMFL is prescribed before inviting applications/tenders for its allotment. The licensee will lift basic quota allotted to his vend as per quarterly schedule failing which penal provision may be invoked.

During the year 2009-10, quota of CL of 750 lakh proof litres (PLs) and quota of 425 lakh PLs for IMFL was fixed. To meet any unforeseen demand, in cases of both CL and IMFL, a provision of additional quota upto 50 *per cent* of basic quota has been made on payment of additional excise duty at the rate of ₹ 5 per PL and ₹ 15 per PL in case of CL and IMFL respectively.

In order to promote safety and to guard against spurious and adulterated liquor, the manufacturers of CL are required to affix such hologram as approved by Excise and Taxation Department in the manner prescribed.

3.2.3 Organisational set up

At the Government level, Financial Commissioner and Principal Secretary, Excise and Taxation Department (FCET) is responsible for the administration of State excise laws and excise policy in the State. At the Department level, the overall control and supervision of the State excise organisation is vested with the Excise and Taxation Commissioner (ETC). The ETC is assisted by Additional Excise and Taxation Commissioners (AETCs), Joint Excise and Taxation Commissioners (JETCs) and Collector (Excise) at the headquarter.

He is also assisted by 21 Deputy Excise and Taxation Commissioners (DETCs), Excise and Taxation Officers (ETOs), Assistant Excise and Taxation Officers (AETOs), Excise Inspectors and other allied staff at district level for the administration and implementation of State excise policy and excise laws in the Department.

3.2.4 Audit objectives

We conducted the review with a view to ascertain whether:

- budget estimates (BEs) were prepared in accordance with the prescribed procedure and were realistic;
- excise duty, fees and penalties were levied, assessed and realised as per provisions of the Excise Act, Rules and executive instructions issued by the Department governing grant/allotment of vends and fixation of reserve price of vends;
- State excise policies for the period under review had been framed as per provisions under the Rules and extent of compliance to the provisions of the State excise policies to prohibit leakage of revenue;
- adequate norms exist to govern the production of alcohol from different raw material and were being adhered to;
- wastage during manufacture, transit and storage of alcohol and liquor were monitored in accordance with the excise rules; and
- an effective internal control and monitoring mechanism was in existence in the Department.

3.2.5 Audit criteria

The audit findings were benchmarked against the following audit criteria:

- Punjab Excise Act, 1914
- Haryana Liquor Licenses Rules, 1970
- Punjab Excise Fiscal Orders, 1932
- Punjab Distillery Rules, 1932
- Punjab Brewery Rules, 1956
- Haryana Imposition and Recovery and Penalty Rules, 2003
- State Excise Policy and
- Departmental Notifications and circulars issued regarding levy and collection of State Excise Duty.

3.2.5.1 Scope and methodology of audit

The records relating to the levy, assessment and collection of duty, fees and penalties in the office of ETC and 13 (out of 21) offices of DETCs (Excise) in the State for the years 2005-06 to 2009-10 were test checked between April and October 2010. We selected eight² district offices on random sample selection basis by applying formula of probability proportional to size method (without replacement) and Faridabad and Gurgaon districts on the basis of risk

² Ambala, Bhiwani, Jhajjar, Karnal, Mewat, Rohtak, Sonapat and Yamunanagar.

analysis. Kaithal, Rewari and Sirsa districts were included in the scope of the review on the suggestion made by the Department during entry conference in August 2010. We have also included points of similar nature noticed during audit for the period 2005-06 to 2009-10.

3.2.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Excise and Taxation Department in providing necessary information and records for facilitating audit by us. An entry conference was held in August 2010 with the Financial Commissioner-cum-Principal Secretary to Haryana Government (Excise and Taxation Department) and other Departmental officers wherein the audit objectives, methodology and selection of districts were explained. The suggestions of the Department were kept in view at the time of selection of districts and conducting audit. We forwarded the draft review report to the Department and Government in June 2011. An exit conference was held on 3 August 2011 with the Financial Commissioner-cum-Principal Secretary to Haryana Government (Excise and Taxation Department), ETC and other officers. During the exit conference, the findings of the review and recommendations were discussed. The verbal and written replies furnished by the Department during exit conference and at other times have been appropriately incorporated in the respective paragraphs.

3.2.7 Trend of revenue receipts

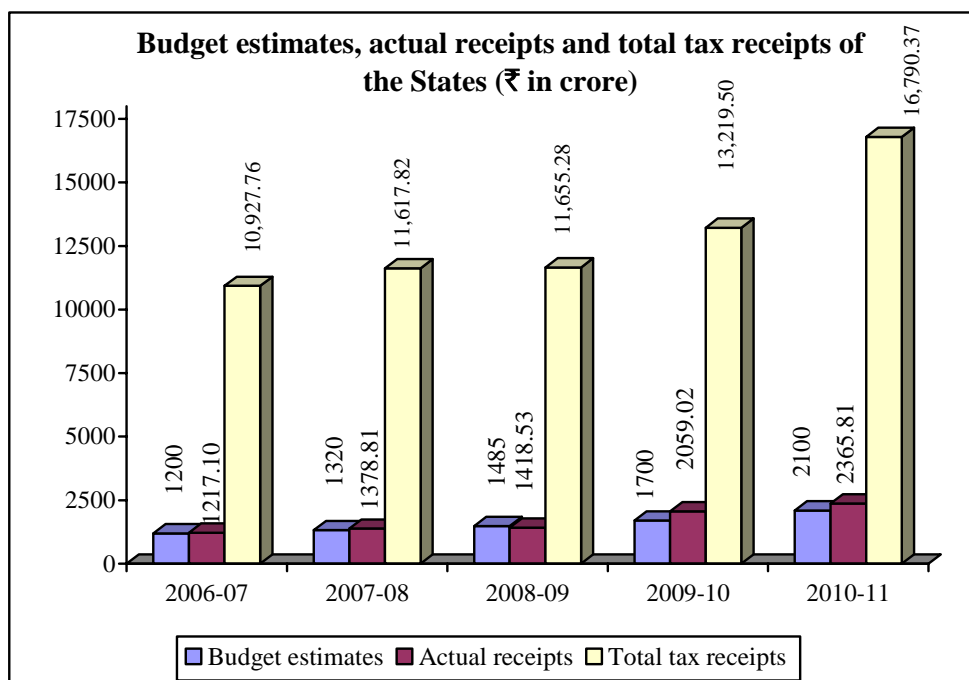
As per Para 3.2 of the Punjab Budget Manual, as applicable to the State of Haryana, BEs of the revenue receipts for the ensuing year should be based on the original BE of the year just closed, actual of the two years preceding the year that just closed, actual of previous year for last six months and actual of current year for first six months to make the estimates more realistic.

Actual receipts from State excise duty during the years 2006-07 to 2010-11 along with the total tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess(+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-a-vis total tax receipts (Col. 3 to 6)
1	2	3	4	5	6	7
2006-07	1,200.00	1,217.10	(+) 17.10	(+) 01	10,927.76	11
2007-08	1,320.00	1,378.81	(+) 58.81	(+) 04	11,617.82	12
2008-09	1,485.00	1,418.53	(-) 66.47	(-) 04	11,655.28	12
2009-10	1,700.00	2,059.02	(+) 359.02	(+) 21	13,219.50	16
2010-11	2,100.00	2,365.81	(+) 265.81	(+) 13	16,790.37	14

Source: State Budget and Finance Accounts.



The reasons for increase in revenue receipts in 2006-07 (11 per cent) to 2010-11 (14 per cent) were mainly due to increase in quota and license fee of CL and IMFL outlets. However, the Department stated in July and August 2011 that no norms had been laid down for the preparation of estimates of revenue and that the Department prepares the BEs and sends the proposals after collecting it from various branches to Finance Department. However, the Government fixed the annual revenue targets and the Department achieved more than the targets fixed.

Consumption of liquor

The position of consumption of liquor in the State during the period 2005-06 to 2009-10 has been tabulated below:-

Year	Excise receipts (₹ In crore)	Consumption of liquor (in lakh PLs)	Estimated population (in lakh)	Per capita consumption of liquor (in PLs)	Percentage increase in per capita consumption of liquor
2005-06	1,106.86	619.66	231.40	2.68	
2006-07	1,217.10	936.75	235.69	3.97	(+) 48.13
2007-08	1,378.81	1,146.23	239.97	4.77	(+) 20.15
2008-09	1,418.53	1,133.79	244.25	4.64	(-) 2.72
2009-10	2,059.02	1,467.22	248.49	5.90	(+) 27.15

The consumption of liquor increased from 619.66 lakh PLs to 1,467.22 lakh PLs (137 per cent) and the excise receipts increased from ₹ 1,106.86 crore to ₹ 2059.02 crore (86 per cent) during the period 2005-06 to 2009-10.

Audit reviewed the functions of the Excise and Taxation Department regarding the levy and collection of excise duty on liquor. The Review revealed system and compliance deficiencies which have been discussed in the subsequent paragraphs.

Audit findings

System deficiencies

3.2.8 Non-fixing of norms for yield of alcohol from grains

The Punjab Distillery Rules, 1932 provide for minimum yield of 91.8 proof litre (PL) of alcohol per quintal of fermentable sugar present in the molasses. The rules, however, do not prescribe any such norm or benchmarks for alcohol production from the grain. Paragraph 39 of the Technical Excise Manual stipulates that 7.7 gallons of alcohol is to be obtained from 220 pounds (one quintal) of rice which converts to 61.20 PLs per quintal of rice.

During test check of records of the officer-in-charge (Excise) M/s Frost Falcon Distilleries Ltd, Jahri, Sonapat in February 2011 and scrutiny of data/information supplied by the officer-in-charge (Excise) M/s Ashoka Distillers and Chemicals Ltd. Hathin, Palwal in November 2010 revealed that in addition to use molasses, the distilleries were also producing alcohol from grain during the period 2005-06 to 2009-10. The norms given in the Technical Excise Manual were neither followed by the Department nor was any other norms inserted in the Punjab Distillery Rules, 1932 after due analysis. In the absence of any norms minimum yield of alcohol from grain could not be ascertained.

After we pointed out these cases in November 2010 and February 2011, the Excise and Taxation Department (State Excise) stated in August 2011 that no norms had been fixed for recovery of alcohol per quintal of grains under Punjab Distillery Rules 1932. Department further stated that the norms for minimum yield of alcohol from grain could not be fixed because of variations in quality of grain and the recovery depends upon the presence of starch in grain which converted into sugar to obtain spirit.

The Audit suggests that the Government may consider to fix norms for minimum yield of alcohol from grain as per quality to avoid revenue leakage.

3.2.9 Non-use of new glass bottles

Under clause 4.16 of State Excise Policy for the year 2009-10, to ensure use of glass bottles for CL as an institutional measure, the distilleries are required to provide at least 30 *per cent* of the fixed quota allocated individually on account of proportional distribution of the 75 *per cent* quota of CL into new glass bottles that is 30 *per cent* of 75 *per cent* is equal to 22.5 *per cent* of the total quota is to be supplied in new glass bottles and it shall be equally spread over all the distilleries who shall be allotted quota equally and all of them shall comply with the provisions.

During test check of the records of four³ offices of officer-incharge of the distilleries for the year 2009-10 in February 2011, we noticed that the distilleries had not supplied prescribed quota of 22.5 *per cent* in new glass bottles. Instead they were using pet bottles. Thus, the distilleries were not complying with the provisions of the State Excise Policy in the absence of any penal provisions for enforcing the compliance of the provisions by the distilleries.

After we pointed out these cases in February 2011, DETC Sonapat and Yamunanagar stated in April 2011 that licensees were not interested to lift the CL in glass bottles. Moreover, there was no demand of glass bottles in the market as these were costlier than pet bottles. The Excise and Taxation Department (State Excise) stated in August 2011 that the DETC (Excise) of the concerned districts had been directed to ensure compliance of provisions of Excise Policy by distilleries in letter and spirit in future. The fact, however, remains that the distilleries had not followed the provisions of State excise policy and the Department had not enforced the provisions. We had not received reply from the remaining two DETCs (October 2011).

We recommend that the Government may, therefore, frame Rules for use of cent *per cent* glass bottles as pet bottles are not eco-friendly.

³ M/s N.V. Distilleries, Ambala, M/s Picadily Agro Industries Limited (Distillery Unit) village Bhadson, Karnal, M/s Frost Falcon Distilleries, Jahri Sonapat, M/s Haryana Distilleries, Yamunanagar.

Compliance deficiencies

3.2.10 Non-realisation of differential license fee on re-auction

Under the HLL Rules, read with the State excise policy for the years 2006-07 to 2009-10 every successful allottee of retail licensed liquor outlet, shall be required to deposit a security amount equal to 20 per cent of the annual license fee of the licensed outlet, out of which 5 per cent of the license fee has to be deposited on the day of draw of lot, 5 per cent within 7 days of the allotment/draw of lot on or before 31 March of the respective year, whichever is earlier and remaining 10 per cent by the 7th April of the respective year. The balance 80 per cent shall be payable in eight (upto 2007-08)/nine (from 2008-09 onwards) equated monthly instalments starting from April to November/December of the respective year. In case, the allottee fails to make payment of security deposit equal to 20 per cent of annual license fee and defaults in payment of eight/nine equated instalments of license fee along with interest, the licensed outlet shall cease to be in operation on the first day of the following month and shall ordinarily be sealed by the DETC (Excise) of the respective district. In such events, the DETC (Excise) may re-allot it at the risk and cost of the original allottee by seeking prior permission of the Financial Commissioner.

During test check of the records of seven⁴ offices of DETC (Excise) between August 2007 and December 2010, we noticed that 43 retail outlets were auctioned between March 2006 to November 2009 for ₹ 15.13 crore for the years 2006-07 to 2009-10. Out of 43 successful bidders, 28 bidders did not deposit the security amount in full and the remaining 15 licensees failed to pay monthly instalments of license fee in full by due date. Of the total license fee of ₹ 15.13 crore, the allottees deposited security and monthly license fee amounting to ₹ 2.11 crore. Thus, the allottees did not deposit the balance amount of ₹ 13.02 crore. The Department cancelled their retail liquor outlets between March 2006 and December 2009 and forfeited the entire amount of security. These retail outlets were re-auctioned/re-allotted between March 2006 to February 2010 for the remaining period for ₹ 6.71 crore at the risk and cost of original licensees. The demand notices had not been issued by the Department.

The Department, however, did not initiate any action to recover the differential amount of license fee of ₹ 6.31 crore (₹ 13.02 crore - ₹ 6.71 crore) from the original allottees. This resulted in non-realisation of Government revenue of ₹ 6.31 crore.

After we pointed out these cases between August 2007 and December 2010, DETC (Excise), Ambala stated in December 2010 that recovery proceedings against the defaulters for ₹ 13.22 lakh had been initiated. The DETC (Excise), Hisar and Narnaul stated that an amount of ₹ 2 lakh had been recovered and efforts would be made to recover the balance amount of ₹ 2.59 crore. We have

⁴ Ambala, Bhiwani, Hisar, Kaithal, Karnal, Narnaul and Rohtak.

not received reply from the remaining four⁵ DETCs about the balance amount of ₹ 3.57 crore and further progress report on recovery (October 2011).

The Excise and Taxation Department admitted the facts in August 2011 and assured to furnish the latest position of recovery.

3.2.11 Non/short recovery of license fee and interest

Under the HLL Rules, read with the State excise policy for the years 2006-07, 2008-09 and 2009-10 provide for payment of monthly instalments of license fee by the 15th/20th of each month by the licensee/allottee holding license for retail outlets for vending CL and IMFL. Failure to do so renders him liable to pay interest at the rate of one and half *per cent* per month for the period from the first day of the month to the date of payment of the instalment or any part thereof. If the licensee fails to deposit the monthly instalment in full along with interest by the end of the month, the licensed outlet shall cease to be in operation on the first day of the following month and shall ordinarily be sealed by the DETC (Excise) of the respective district.

3.2.11.1 During test check of the records of 11 offices⁶ of DETC (Excise) for the years 2006-07, 2008-09 and 2009-10 between May 2007 and December 2010, we noticed that retail liquor outlets for sale of CL/IMFL were allotted to 119 licensees for ₹ 55.48 crore. The licensees failed to pay monthly instalments of license fee for the period between August 2006 and December 2010 in full by the prescribed dates. Of the total license fee of ₹ 55.48 crore, the licensees had paid only ₹ 51.81 crore. Thus, the allottees did not deposit the balance amount of ₹ 3.67 crore. The DETCs (Excise), however, did not initiate any action to seal the vends for non-deposit of monthly instalment in full by the end of the month and levy interest for belated payment of license fee. This resulted in non-recovery of license fee of ₹ 4.65 crore including interest⁷ of ₹ 97.68 lakh.

After we pointed out these cases between May 2007 and December 2010, seven⁸ DETCs (Excise) stated between December 2010 and August 2011 that an amount of ₹ 52.04 lakh (including interest of ₹ 2.78 lakh) had been recovered and efforts would be made to recover the balance amount of ₹ 2.56 crore. DETCs Rewari and Narnaul stated in February and August 2011 that notices had been issued to the defaulters to recover the balance amount of ₹ 1.15 crore. We have not received reply and action taken to levy interest from the DETCs, Bhiwani and Karnal about the balance amount of ₹ 42.12 lakh (October 2011).

⁵ Bhiwani, Kaithal, Karnal and Rohtak.

⁶ Ambala, Bhiwani, Faridabad, Gurgaon, Jind, Kaithal, Karnal, Narnaul, Rewari, Sonapat and Yamunanagar.

⁷ Interest calculated upto December 2010.

⁸ Ambala, Faridabad, Gurgaon, Jind, Kaithal, Sonapat and Yamunanagar.

3.2.11.2 During test check of the records of 16 offices⁹ of DETC (Excise) for the years 2006-07 to 2009-10 between August 2007 and December 2010, we noticed that 576 licensees failed to pay monthly instalments of license fee amounting to ₹ 136.44 crore for the period between April 2006 and December 2009 by the prescribed dates. The delay ranged between 15 to 206 days. The DETCs (Excise), however, did not initiate any action to seal the vends for non-deposit of monthly instalments by the end of the month and to levy interest for belated payment of the license fee. This resulted in non-levy of interest of ₹ 2.77 crore.

After we pointed out these cases between August 2007 and December 2010, the Excise and Taxation Department (State Excise) admitted the facts in August 2011. Thirteen¹⁰ DETCs (Excise) stated between October 2010 and August 2011 that out of ₹ 2.31 crore, an amount of ₹ 98.38 lakh had been recovered and recovery proceedings were in progress for the balance amount of ₹ 1.33 crore. We have not received further report on recovery and reply in the remaining DETCs, Bhiwani, Karnal and Rohtak for the balance amount of ₹ 45.69 lakh (October 2011).

3.2.12 Non-levy/recovery of penalty for illegal possession and trade of liquor

Under Section 61 of the Punjab Excise Act, 1914, as applicable to the State of Haryana, penalty not less than ₹ 50 and not more than ₹ 500 per bottle of 750 ml is leviable on the offender for possession of illicit liquor. Further, Haryana Imposition and Recovery of Penalty Rules, 2003, provide that if penalty is not paid within the stipulated period, the Collector or DETC (Excise) shall pass orders for confiscation of means of transport seized along with liquor and the means of transport shall be put to auction within 30 days from the date of order of confiscation. The auction amount, after deducting the expenditure incurred on it, shall be adjusted towards payment of penalty and the excess amount, if any, shall be refunded to the owner. The unrecovered amount of penalty, if any, shall be recoverable as arrears of land revenue.

3.2.12.1 During test check of the records of 12 offices¹¹ of DETC (Excise) for the years 2005-06 to 2009-10 between September 2006 and October 2010, we noticed that the Department had detained 3,12,885 bottles of illicit CL in 283 cases and confiscated 108 vehicles in 108 cases during road checking between April 2005 and March 2010. The Department, after giving reasonable opportunity, decided these cases and imposed penalty of ₹ 6.03 crore between May 2005 and March 2010 and recovered ₹ 36.13 lakh. Neither the defaulters paid the penalty nor the Department initiated any action to recover the amount either by auctioning the confiscated vehicles or by recovery through revenue recovery certificates as arrears of land revenue even after the lapse of 10 to 68 months. Non-

⁹ Ambala, Bhiwani, Faridabad, Gurgaon, Hisar, Jhajjar, Kaithal, Karnal, Kurukshetra, Narnaul, Panchkula, Panipat, Rohtak, Rewari, Sonapat and Yamunanagar.

¹⁰ Ambala, Faridabad, Gurgaon, Hisar, Jhajjar, Kaithal, Kurukshetra, Narnaul, Panchkula, Panipat, Rewari, Sonapat and Yamunanagar.

¹¹ Ambala, Bhiwani, Faridabad, Fatehabad, Hisar, Jind, Kaithal, Karnal, Narnaul, Panchkula, Rohtak and Sirsa.

observance of Rules 12 and 13 of the Haryana Imposition and Recovery Rules, resulted in non-recovery of penalty of ₹ 5.67 crore.

After we pointed out these cases between September 2006 and October 2010¹² DETCs (Excise) stated between December 2010 and September 2011 that penalty of ₹ 62.10 lakh had been recovered in 39 cases out of 256 cases between September 2010 and September 2011 and recovery certificates had been issued to recover the balance amount of ₹ 4.88 crore. We have not received further report on recovery and reply from DETCs Bhiwani, and Rohtak in 27 cases for the balance amount of ₹ 16.60 lakh (October 2011).

3.2.12.2 During test check of the records of 14 offices¹³ of DETC (Excise) between September 2006 and November 2010, we noticed that in 191 cases, 1,72,102 bottles of illicit CL were detained between May 2005 and March 2010. The Department had confiscated vehicles in 62 cases. The Department had neither imposed minimum penalty nor initiated any action to recover the amount. This resulted in non-levy of minimum penalty of ₹ 88.53 lakh.

After we pointed out these cases between September 2006 and November 2010, the Excise and Taxation Department (State Excise) admitted the facts in August 2011. Eight DETCs (Excise)¹⁴, stated between September 2010 and August 2011 that penalty of ₹ 133.89 lakh had been imposed in 60 cases between June 2008 and October 2010 (i.e. after audit). Further, the Department had recovered ₹ 46.49 lakh and stated that efforts would be made to recover the balance amount of ₹ 87.40 lakh. We had not received reply from the remaining six¹⁵ DETCs and further progress of recovery of penalty for the balance amount of ₹ 36.18 lakh (October 2011).

¹² Ambala, Faridabad, Fatehabad, Hisar, Jind, Karnal, Kaithal, Narnaul, Panchkula and Sirsa.

¹³ Ambala, Bhiwani, Fatehabad, Gurgaon, Jind, Kaithal, Karnal, Kurukshetra, Narnaul, Panchkula, Rohtak, Rewari, Sonapat and Yamunanagar.

¹⁴ Ambala, Fatehabad, Kurukshetra, Narnaul, Panchkula, Rewari, Sonapat and Yamunanagar.

¹⁵ Bhiwani, Gurgaon, Jind, Kaithal, Karnal and Rohtak.

3.2.13 Non/short levy/realisation of penalty for short lifting of quarterly quota of liquor

To plug leakage of liquor and safeguard revenue, lifting of basic quota is stipulated. Under the provisions of the HLL Rules read with State excise policy for the years 2006-07 to 2009-10, a licensee is liable to lift the entire basic quota of CL and IMFL allotted to his vend as per prescribed quarterly schedule failing which penal provisions are invoked. Non-compliance of the provisions regarding lifting of quarterly quota attracts penalty at the rate of ₹ 20 and ₹ 65 per PL for CL and IMFL respectively for the deficient quantity.

3.2.13.1 During test check of the records of four¹⁶ offices of DETC (Excise) for the years 2006-07 to 2009-10 between January 2008 and August 2010, we noticed that licenses for the sale of liquor were allotted to 48 retail licensed outlets and they were required to lift the combined quota of CL and IMFL for 14.62 lakh PLs (CL: 10.77 lakh PLs; IMFL: 3.85 lakh PLs) during the years 2006-07 to 2009-10. However, the licensees lifted 13.31 lakh PLs (CL: 9.87 lakh PLs; IMFL: 3.44 lakh PLs) out of prescribed combined liquor quota.

Thus, the licensees had short lifted the basic quota of liquor by 1.31 lakh PLs (CL: 0.90 lakh PLs; IMFL: 0.41 lakh PLs). DETCs (Excise) had not initiated any action to levy and recover penalty for short lifting of quota. This resulted in non-levy of penalty amounting to ₹ 44.30 lakh.

After we pointed out these cases between January 2008 and August 2010, DETC (Excise), Sonapat and Yamunanagar stated between November 2010 and August 2011 that an amount of ₹ 86,000 had been recovered in August 2011 and efforts would be made to recover the balance amount of penalty of ₹ 5.30 lakh. We had not received reply from the remaining DETCs (Excise), Bhiwani and Karnal for the balance amount of ₹ 38.14 lakh and further report on recovery of penalty (October 2011).

3.2.13.2 During test check of the records of offices of DETC (Excise), Bhiwani and Rohtak in July and October 2010, we noticed that 20 retail licensed outlets were required to lift the quarterly quota of CL and IMFL for 1.77 lakh PLs during the year 2009-10. However, the licensees lifted 1.37 lakh PLs out of prescribed liquor quota of 1.77 lakh PLs. Thus, the licensees had short lifted the basic quota of liquor by 0.40 lakh PLs. DETCs (Excise) had not levied penalty for short lifting of quarterly quota. This resulted in non-levy of penalty amounting to ₹ 14.85 lakh.

After we pointed out these cases to DETCs (Excise) Bhiwani and Rohtak in July and October 2010, no reply was received by us (October 2011).

3.2.13.3 During test check of the records of office of DETC (Excise) Jhajjar in July 2010, we noticed that 12 retail licensed outlets were required to lift the quarterly quota of CL and IMFL for 1.55 lakh PLs upto 30 June 2009 during

¹⁶ Bhiwani, Karnal, Sonapat and Yamunanagar.

the year 2009-10. However, the licensees lifted 1.06 lakh PLs out of prescribed liquor quota of 1.55 lakh PLs. Thus, the licensees had short lifted the basic quota of liquor by 0.49 lakh PLs. DETCs (Excise) had levied penalty of ₹ 10.06 lakh but the same had neither been recovered nor deposited by the licensees. This resulted in non-recovery of penalty amounting to ₹ 10.06 lakh.

After we pointed out the case in July 2010, the Excise and Taxation Department (State Excise) admitted the facts in August 2011. DETC (Excise), Jhajjar stated in August 2011 that an amount of ₹ 9.05 lakh had been recovered and efforts would be made to recover the balance amount of ₹ 1.01 lakh (October 2011).

3.2.14 Establishment charges not realised

Under Rule 13 and 16 of the Punjab Distillery Rules, 1932, as applicable to the State of Haryana, the licensee shall agree to the posting of a Government excise establishment to his distillery for the purpose of ensuring the due observance of the rules and for watch and ward. The licensee shall, if required by the Excise Commissioner, make into the Government Treasury such payment as may be demanded on account of the salaries of the Government excise establishment posted to the distillery, but he shall not make any direct payment of any member of such establishment. Further, under clause 3.9 of the State Excise Policy for the year 2009-10, it has been decided to recover the salary cost of supervisory excise staff required by Law/Rules/Policy to be posted in any licensees premises/facility on quarterly reimbursement basis.

During test check of the records of five¹⁷ offices of DETC (Excise) between May 2010 and February 2011, we noticed that the Excise and Taxation Department posted 24 excise supervisory staff in six¹⁸ distilleries (including one brewery and one bottling plant). The establishment charges aggregating to ₹ 59.68 lakh payable for the year 2009-10 towards the Government staff posted for ensuring due observance of the Rules, were neither demanded by the Department nor paid by the management of these distilleries/brewery. Non-observance of the rules resulted in non-realisation of the establishment charges amounting to ₹ 59.68 lakh.

After we pointed out these cases between May 2010 and February 2011, the Excise and Taxation Department (State Excise) admitted the facts in August 2011. Four¹⁹ DETCs, stated between September 2010 and August 2011 that an amount of ₹ 20.14 lakh had been recovered and efforts would be made to recover the balance amount of ₹ 33.48 lakh. We had not

¹⁷ Ambala, Gurgaon, Karnal, Sonapat and Yamunanagar.

¹⁸ M/s N.V. Distilleries, Ambala, M/s Picadily Agro Industries Limited (Distillery Unit) village Bhadson, Karnal, M/s Frost Falcon Distilleries, Jahri Sonapat, M/s Haryana Distilleries Limited, Yamunanagar, M/s SKOL Breweries, Murthal Sonapat and M/s Allied Blenders and Distilleries (P) Ltd., Gurgaon (Bottling Plant).

¹⁹ Ambala, Gurgaon, Sonapat and Yamunanagar.

received reply from the DETC (Excise), Karnal for the balance amount of ₹ 6.06 lakh (October 2011).

3.2.15 Non-recovery of penalty imposed on failed samples of liquor

Under Rule 37 (26) of the HLL Rules, a licensee shall not adulterate or deteriorate any liquor to be sold by him, or sell the same knowing it to have been adulterated or deteriorated, or store or permit to be stored in his licensed premises any liquor in an adulterated or deteriorated State. Further, Section 68 of the Punjab Excise Act, 1914, as applicable to the State of Haryana provides, that whosoever is guilty of any act or intentional omission in contravention of any of the provisions of the Act or of any rule, notification or order made, issued or given, thereunder and not otherwise provided in the Act, shall be punishable for each such act or omission with a fine which may extend to ₹ 5,000.

During test check of the records of offices of three DETCs²⁰ (Excise) for the years 2006-07 and 2009-10 between May 2007 and October 2010, we noticed that the excise staff collected samples of liquor from 61 retail licensed outlets (CL: 48; IMFL: 13) during the years 2006-07 and 2009-10 and were sent to Departmental laboratory for analysis of quality of liquor. These samples were found adulterated and not fit for human consumption. The Department imposed penalty amounting to ₹ 2.28 lakh on these 61 cases of failed samples of liquor which was neither demanded by the Department nor it was deposited by the licensee. This resulted in non-recovery of penalty of ₹ 2.28 lakh.

After we pointed out these cases between May 2007 and October 2010, the Excise and Taxation Department (State Excise) admitted the facts in August 2011. DETCs (Excise) Hisar, Jind and Kaithal stated in August 2011 that an amount of ₹ 1.28 lakh had been recovered and efforts would be made to recover the balance amount of ₹ 1.00 lakh. However, the provision mentioned in the Act was deficient as it contains only the provision of levy of penalty in case of adulterated liquor was detected, whereas the sale of adulterated liquor unfit for human consumption was a serious matter as it amounts to criminal act.

The Audit suggest that the Government may consider to introduce provision in the Act/Rules for taking action under criminal procedure code to ensure severe punishment so that tendency of adulterating the liquor could be curbed.

²⁰

Hisar, Jind and Kaithal.

3.2.16 Non/short deposit of security and additional security

Under the HLL Rules read with the State Excise Policy for the year 2009-10, every successful allottee of retail licensed liquor outlet, shall be required to deposit security equal to 20 per cent of the annual license fee of the licensed outlet, out of which five per cent of the license fee has to be deposited on the day of draw of lots, five per cent within seven days of the allotment/draw of lot on or before 31 March of the respective year, whichever is earlier and remaining 10 per cent by 7th April of the respective year. Further, payment of additional security of ₹ one lakh and ₹ two lakh is to be made by retail licensed liquor outlet having license fee upto ₹ 75 lakh and exceeding ₹ 75 lakh respectively. The amount of additional security shall be refunded after the close of the year on 31 March 2010 when there would be nothing due against the licensee.

3.2.16.1 During test check of the records of five²¹ offices of DETC (Excise), we noticed between May and August 2010 that 54 retail outlets were auctioned in March 2009 for ₹ 38.14 crore for the year 2009-10. They did not deposit the security amount in full by the stipulated date (07 April 2009). Of the total security of ₹ 7.63 crore, the allottees deposited security amounting to ₹ 3.16 crore after the delay ranged between two to 318 days. The DETCs (Excise), however, did not initiate any action to seal the vend for non-deposit of security in full by the due date under the aforesaid provisions of the Rules and Excise Policy. The Department, however, had neither taken any step to curb such type of practice nor made any penal provision in the Act/Rules to guard against such eventualities.

3.2.16.2 During test check of the records of five²² offices of DETC (Excise), we noticed between May and August 2010 that 97 (73 cases upto ₹ 75 lakh and 24 cases above ₹ 75 lakh) retail licensed liquor outlets were auctioned in March 2009 for ₹ 49.94 crore (license fee upto ₹ 75 lakh: ₹ 26.49 crore; license fee exceeding ₹ 75 lakh: ₹ 23.45 crore) for the year 2009-10. These licensees were required to make payment of security/additional security of ₹ 1.85 crore, out of which the licensees had deposited security/additional security of ₹ 66.72 lakh. The DETC (Excise), however, did not initiate any action to recover the additional security from the licensees. This resulted in short deposit of security/additional security amounting to ₹ 1.18 crore.

²¹ Ambala, Bhiwani, Gurgaon, Jhajjar and Karnal.

²² Ambala, Bhiwani, Gurgaon, Rohtak and Yamunanagar.

After we pointed out these cases between May and August 2010, the DETCs (Excise), Ambala and Yamunanagar stated in September 2011 that the additional security was required to be deposited by the licensees to compensate against any default in license fee at the end of the year and that the additional security was to be refunded to the licensees after the completion of financial year, hence there was no financial loss to the Government. The reply was contrary to the provisions of the aforesaid rules and State excise policy. Had the additional security been recovered from licensees, the outstanding amount of ₹ 0.39 crore against 41 licensees would have been adjusted from the additional security. DETC (Excise), Gurgaon stated in January 2011 that security of ₹ 6.10 lakh had been recovered from three licensees between August and October 2010 and efforts would be made to recover the balance amount additional security of ₹ 25 lakh. Further, the Excise and Taxation Department (State Excise) stated in August 2011 that the amount of additional security was to be taken first from the earnest money and thereafter the balance amount of earnest money was to be adjusted towards the security amount equal to 20 per cent of the bid amount payable by allottee. The reply from the remaining two DETCs, Bhiwani and Rohtak was still awaited (October 2011).

As such, we recommend that the provisions of Excise Rules/State Excise Policy may be complied with strictly by Excise offices for recovery of security and additional security.

3.2.17 Internal control mechanism

3.2.17.1 Inadequate internal controls and monitoring

To have an effective internal control, the Department prescribes 14 statements/returns to be furnished by the DETCs (Excise), distillers and breweries to ETC every month.

Scrutiny of records in the office of the ETC, Haryana revealed that the prescribed monthly returns in respect of working of DETC (Excise) offices, distilleries and breweries in the State were received in time but the information regarding year-wise and district-wise quantum of monthly progress reports (MPRs) due and received had not been prepared. The Department stated in July 2011 that MPRs received from field offices could not be monitored due to shortage of staff. From time to time, Excise and Police staff conducts raids to check illicit distillation and sale of illicit liquor. Such checking was information based. The Department stated in July and August 2011 that four Departmental officers meetings were held to review the monthly statements, license fee and quota of CL and IMFL but no minutes of meetings were made available. From the

above, it is evident that internal checks and monitoring at Department level were not adequate. However, the Department stated that internal control mechanism would be strengthened on the recommendation of audit.

3.2.17.2 Working of internal audit

Internal audit is a tool in the hands of management to assure itself that the prescribed systems are functioning well. The Department stated in September 2010 that they had one Chief Accounts officer, five Accounts Officers and 11 Section Officers (against 14 sanctioned posts) at headquarters. There were 15 Section Officers in the district level offices who conducted internal audit in respect of the levy and collection of State excise duty/fees/penalty etc. and cash books.

The internal audit wing had conducted the audit of nine²³ field offices between May 2005 and March 2009 but no internal audit had been conducted in respect of remaining 12 field offices during the year 2005-06 to 2009-10.

Neither audit notes were made available nor the Chief Accounts Officer furnished the details of objections raised and settled along with the planning of auditable units. Thus, the monitoring at the Department level and coverage of internal audit was not adequate.

The irregularities discussed in audit paragraphs 3.2.8 to 3.2.16 are indicative of ineffective control mechanism as none of these irregularities pointed out by us were detected by the internal audit parties. The Department, therefore, needs to strengthen the internal audit wing to ensure timely detection and correction of errors in levy and collection of excise duty, fees and penalty etc.

The Excise and Taxation Department (State Excise) stated in August 2011 that though there was lack of internal control mechanism at the Department level due to shortage of staff but in spite of the fact there was increase in revenue receipts.

We recommend that the internal control mechanism/ internal audit be strengthened and be made more effective.

²³

Bhiwani, Faridabad, Fatehabad, Jind, Kaithal, Karnal, Kurukshetra, Rewari and Rohtak.

3.2.18 Conclusion

State Excise Duty constituted between 11 and 16 *per cent* of the tax revenue of the Government during the period under review. With a view to ensure proper and accurate realisation of excise duty/fee/penalty and implementation of Act/Rules, we noticed that:

- the Department had not fixed norms for minimum yield from grains though it was being used in the distilleries/breweries;
- the Department did not follow the provisions of the Act/Rules, Excise policy and instructions issued by the Government in many areas like grant of licenses for sale of liquor, collection of security/additional security/license fee from licenses granted, levy of penalty on illicit CL or short lifting of annual quota of liquor etc. resulting in significant amount of non/short realisation of excise duty on liquor, and defeating the objectives of the penal provisions; and
- Internal control mechanism and internal audit was weak.

3.2.19 Recommendations

In order to plug loopholes and enforce control over working of Excise Department in levy and collection of excise duty/fees etc. Government may consider the following suggestions for implementation:-

- Necessary amendments may be considered in the Act/Rules to fix norms for minimum yield of alcohol from grain;
- The penal provisions of the Acts/Rules may be implemented by imposing deterrent penalty to discourage illegal trade of liquor;
- The penal provisions for late deposit/non deposit of security/additional security may be introduced;
- The provision for cent per cent use of glass bottles instead of pet bottles for supply of CL by the distilleries may be introduced as pet bottles are not eco-friendly;
- The provision for taking action under criminal procedure code to ensure severe punishment may be introduced so that tendency of adulterating the liquor could be curbed; and
- Internal control mechanism may be strengthened and made more effective.

CHAPTER IV: STAMP DUTY AND REGISTRATION FEE

4.1.1 Tax administration

Receipts from the stamp duty (SD) and registration fee (RF) in the State are regulated under the Indian Stamp Act, 1899 (IS Act), Indian Registration Act, 1908 (IR Act), Punjab Stamp Rules, 1934, as adopted by the Government of Haryana with suitable amendments and the Haryana Stamp (Prevention of Undervaluation of Instruments) Rules, 1978. SD is leviable on the execution of instruments as per Schedule I-A of the IS Act and RF is payable at the prescribed rates fixed by the State Government. At the Government level, the Financial Commissioner and Principal Secretary, Revenue Department, Haryana, Chandigarh (FCR) is responsible for the administration of the IS Act and IR Act and the rules framed thereunder relating to the registration of various documents. The overall control and superintendence over levy and collection of SD and RF vests with the Inspector General of Registration (IGR), Haryana, Chandigarh. The IGR is assisted by the 21 Deputy Commissioners (DCs), 67 Tehsildars and 46 Naib Tehsildars acting as Registrars, Sub Registrars (SRs) and Joint Sub Registrars (JSRs) respectively.

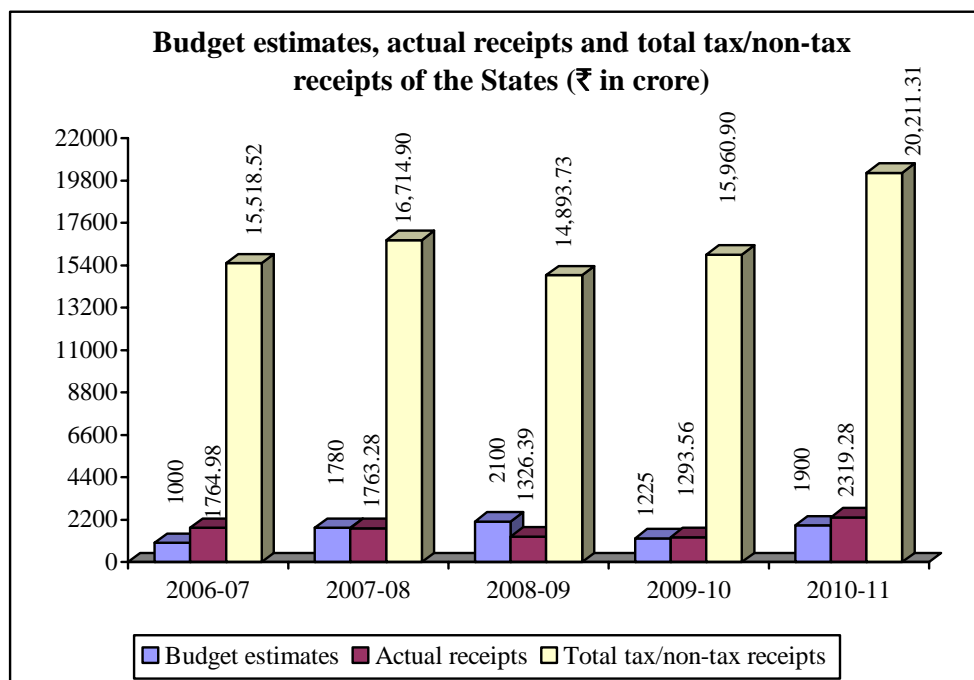
4.1.2 Trend of receipts

Actual receipts from Stamp duty (SD) and Registration Fee (RF) during the years 2006-07 to 2010-11 along with the total tax/non-tax receipts during the same period is exhibited in the following table and graph.

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation (Col. 4 to Col. 2)	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax/non-tax receipts (Col. 3 to Col. 6)
1	2	3	4	5	6	7
2006-07	1,000.00	1,764.98	(+) 764.98	(+) 76	15,518.52	11
2007-08	1,780.00	1,763.28	(-) 16.72	(-) 01	16,714.90	11
2008-09	2,100.00	1,326.39	(-) 773.61	(-) 37	14,893.73	9
2009-10	1,225.00	1,293.56	(+) 68.56	(+) 6	15,960.90	8
2010-11	1,900.00	2,319.28	(+) 419.28	(+) 22	20,211.31	11

Source: State Budget and Finance accounts.



The percentage of actual receipts of the Department during the period 2006-07 to 2010-11 ranged between 8 to 11 *per cent* and the stamp duty receipts increased by 79 *per cent* in 2010-11 over the previous year.

4.1.3 Analysis of arrears of revenue

The Department stated that the information relating to arrears of revenue was awaited from the office of the Divisional Commissioner. The Department had not supplied the details of arrears pending at the beginning of the year, arrears added and collected during the year and arrears pending at the end of the year due to non-availability of centralised database at the apex level. Thus, the Department could not monitor and expedite the progress of recovery of arrears.

4.1.4 Cost of collection

The gross collection in respect of SD and RF, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant all India average

percentage of expenditure of collection to gross collection for the relevant year are mentioned below:

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year
2006-07	1,764.98	10.59	0.60	2.33
2007-08	1,763.28	12.04	0.68	2.09
2008-09	1,326.39	16.31	1.23	2.77
2009-10	1,293.56	13.72	1.06	2.47
2010-11	2,319.28	11.39	0.49	-

Source: Finance Accounts.

4.1.5 Revenue impact of the Audit

4.1.5.1 Position of Inspection Reports

The performance of the Revenue Department to deal with the irregularities detected in the course of local audit conducted during the year 2009-10 and the corresponding figures for the preceding four years is tabulated below:

(₹ in crore)

Year	Units audited			Cases accepted		Recovery made during the year		Percentage of recovery to amount accepted
	Number	Number of cases	Amount	Number	Amount	Cases	Amount	
2005-06	179	8,349	22.10	5,878	13.19	108	0.07	0.53
2006-07	179	3,476	8.99	2,352	6.67	104	0.03	0.45
2007-08	180	85,543	44.43	2,136	6.04	240	0.07	1.16
2008-09	180	1,157	6.50	310	1.90	7	0.01	0.53
2009-10	182	481	23.07	159	20.99	18	0.13	0.62
Total	900	99,006	105.09	10,835	48.79	477	0.31	

We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only one *per cent* except in 2007-08.

4.1.5.2 Position of Audit Reports

During the last five years (including the current year's report), audit through its Audit Reports had pointed out non/short levy/realisation of SD and RF, evasion due to non-execution of conveyance deeds, non-presentation of documents for registration, misclassification of documents, incorrect grant of exemptions/remissions, application of incorrect rate etc., with revenue implication of ₹ 55.83 crore in 20 paragraphs (including two reviews). Of these, the Department/Government had accepted audit observations in 20 paragraphs (including two reviews) involving ₹ 44.20 crore and recovered

₹ 16.71 lakh. The details are shown in the following table:

Year	Paragraphs included		Paragraph accepted		Amount recovered	
	(₹ in crore)				(₹ in lakh)	
	Number	Amount	Number	Amount	Number	Amount
2006-07	3	0.34	3	0.34	1	1.31
2007-08	4 1 (Review)	1.70 24.69	4 1	1.70 15.11	1 -	0.87 -
2008-09	5	0.76	5	0.76	1	1.43
2009-10	1 (Review)	22.85	1	20.96	1	11.50
2010-11	6	5.49	6	5.33	2	1.60
Total	20	55.83	20	44.20	6	16.71

We observed that the Revenue Department had recovered only ₹ 16.71 lakh out of accepted cases amounting to ₹ 44.20 crore during the years 2006-07 to 2010-11. Thus, the recovery in respect of the accepted cases was very low (0.38 per cent). The slow progress of recovery even in respect of accepted cases is the indicative of failure on the part of the Heads of offices/Department to initiate effective action to recover the Government dues promptly.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the revenue involved in accepted cases are promptly recovered.

4.1.6 Results of audit

Test check of the records of various registration offices during the year 2010-11 revealed non/short levy of stamp duty and registration fee amounting to ₹ 7.26 crore in 1,346 cases, which fall under the following categories:

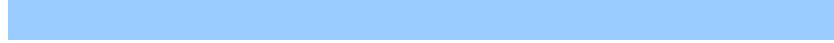
(₹ in crore)

Sr. No.	Category	Number of cases	Amount
A – Revenue Department			
1.	Short recovery of stamp duty and registration fee due to non-charging of residential rates on purchase of land	543	2.28
2.	Short realisation of stamp duty due to sale of property at lower consideration than the amount mentioned in the agreement deeds	145	1.87
3.	Non/short recovery of stamp duty due to undervaluation of immovable property	293	1.62
4.	Irregular exemption of stamp duty on mortgage deeds/compensation certificates to land acquired	44	0.33

Sr. No.	Category	Number of cases	Amount
5.	Short recovery of stamp duty due to misclassification of instruments	14	0.26
6.	Miscellaneous irregularities	307	0.90
	Total	1,346	7.26

During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 5.78 crore involved in 1,158 cases, of which 931 cases involving ₹ 5.60 crore had been pointed out during 2010-11 and the remaining in earlier years. The Department recovered ₹ 17.63 lakh in 227 cases during the year 2010-11 relating to previous years.

A few illustrative cases involving ₹ 5.49 crore are mentioned in the following paragraphs.



4.2 Non-compliance of the provisions of the Acts/Rules

The provisions of the IS Act and IR Act require:-

- (i) *levy of stamp duty at the prescribed rate;*
- (ii) *exemption of stamp duty on fulfillment of prescribed conditions; and*
- (iii) *correct classification of documents.*

We noticed that the registering authorities did not observe some of the above provisions at the time of registration of documents in cases mentioned in the paragraphs 3.2.1 and 3.2.2. This resulted in short levy/evasion of stamp duty of ₹ 4.57 crore.

4.2.1 Evasion of stamp duty due to misclassification of documents

Under the provisions of the IS Act, as applicable to the State of Haryana, separate rates have been prescribed for different types of instruments. The classification of an instrument depends upon the nature of the transactions recorded therein. In case possession of the property is handed over after receipt of full amount of consideration, the instrument becomes a conveyance deed and stamp duty (SD) becomes leviable under the IS Act.

During test check of the records of the offices of six¹ registering authorities for the year 2009-10 between May and September 2010, we noticed that seven instruments conveying possession and transfer of property valued at ₹ 57.07 crore to the vendees were executed between June 2009 and March 2010. In all the cases, the vendors received full amount in lieu of the property sold and the possession of immovable property was also handed over to the purchasers. The deeds were liable to be treated as conveyance deeds and SD of ₹ 3.99 crore was leviable. However, the registering authorities misclassified these documents and registered the deeds as Agreements to sell charging SD of ₹ 430 which was incorrect. This resulted in evasion of SD of ₹ 3.99 crore.

After we pointed out these cases between May and September 2010, Sub Registrars (SRs), Bahadurgarh, Faridabad and Matanhail stated in January and June 2011 that the cases had been sent to the Collector between September and December 2010 under Section 47-A of the Act for decision. SRs Thanesar (Kurukshetra) stated in January 2011 that the case had been sent to the Collector under Section 47-A of the Act for decision and notice had been issued for recovery in September 2010. We have not received further report of recovery and reply from the remaining SRs (October 2011).

¹ SRs: Bahadurgarh, Faridabad, Farukhnagar, Gurgaon, Matanhail (Jhajjar) and Thanesar (Kurukshetra).

We pointed out the matter to the Revenue Department between June and November 2010 and reported to the Government in March 2011; we are yet to receive their reply (October 2011).

4.2.2 Evasion of stamp duty due to undervaluation of immovable property

Section 27 of the IS Act, as applicable to the State of Haryana, provides that consideration and all other facts and circumstances affecting the chargeability of any instrument with duty, or the amounts of duty with which it is chargeable, should be fully or truly set forth therein. Further, Section 64 of the IS Act provides that any person who, with intent to defraud the Government, executes an instrument in which all the facts and circumstances required to be set forth in such instrument are not fully and truly set forth, is punishable with a fine which may extend to ₹ 5,000 per instrument.

4.2.2.1 During test check of the records of seven² registering offices between April and September 2010, we noticed that 26 conveyance deeds were registered between May 2009 and July 2010 on account of sale of immovable properties. The total value of properties set forth in all these conveyance deeds was ₹ 3.19 crore. Cross verification of these deeds with the agreements executed between the concerned parties between March 2009 and March 2010 and recorded with the various document writers revealed that the total sale value of agreements worked out to ₹ 5.88 crore. Thus, the conveyance deeds were got executed and registered at a consideration less than agreed upon between the parties. Undervaluation of immovable properties in conveyance deeds resulted in evasion of SD of ₹ 10.28 lakh which needs to be recovered. Additionally, penalty not exceeding ₹ 1,30,000 for undervaluation made with intent to defraud the Government was also leviable.

After we pointed out the cases between April and September 2010, Five³ SRs stated in November 2010 and May 2011 that the cases had been referred to the Collector between June and November 2010 under Section 47-A of the Act for final decision. The reply of the registering authorities does not explain why these cases had been referred to the Collector since there was no need to refer the cases to the Collector for decision as the value of the property had already been agreed upon between the concerned parties. Further, Collector, Hisar stated in May 2011 that an amount of ₹ 23,500 had been recovered in three cases and efforts would be made to recover the balance amount. We have not received report on recovery and reply from the remaining Gharaunda and Nissing SRs (October 2011).

² SRs: Ballabgarh, Gharaunda, Hansi, Hisar, Indri, Karnal and Nissing.

³ SRs: Ballabgarh, Hansi, Hisar, Indri and Karnal.

With a view to check undervaluation of property at the time of registration, evaluation committees, constituted under the directions of Government, suggest minimum market value of the property in various areas of the State for the guidance of Registering Authorities. Under Section 47-A of the Act, if the registering officer, while registering any instrument relating to transfer of any property or the consideration has not been truly set forth in the instrument, he may after registering such instrument, refer the same to the Collector for determination of the value or consideration and the proper duty payable.

4.2.2.2 During test check of the records of the office of SR, Nilokheri (District Karnal) in August 2010 for the year 2009-10, we noticed that a vendee purchased a Sheller land measuring 64 kanal 12 marla (39,080 square yards) for a consideration of ₹ 6.82 crore treating the land as residential. The registering authority levied SD of ₹ 34.10 lakh on the consideration of ₹ 6.82 crore as set forth in the instrument though the value of land determinable on the basis of minimum market value fixed for commercial property by the Collector for that locality worked out to ₹ 16.41⁴ crore and SD of ₹ 82.07 lakh was leviable. The registering authority did not refer the same to the Collector for determination of the value as consideration and proper duty payable. This resulted in short levy of SD of ₹ 47.97 lakh.

After we pointed out the case in August 2010, SR Nilokheri stated in March 2011 that the case had been sent to the Collector in October 2010 under Section 47-A of the IS Act for correct proceedings. We have not received further progress of recovery (October 2011).

4.3 Non-compliance of Government notification/instructions

- (i) *Government instructions of November 2000 prescribes for levy of SD on land sold within municipal limits with an area less than 1,000 square yards be valued at the rates fixed for the residential property of that locality.*
- (ii) *Government notification of August 1995 provides for exemption for purchase of agriculture land from the compensation received for acquired land.*

We noticed that non-compliance of some of the provisions in the above notifications/instructions in some of the cases as mentioned in paragraphs 4.3.1 to 4.3.4 resulted in non/short realisation/recovery of duty of ₹92.01 lakh.

⁴ 64 kanal 12 marla =39,080 square yards X 4,200 per square yards=₹ 16,41,36,000

4.3.1 Short levy of stamp duty due to application of incorrect rates of immovable property

In order to check evasion of SD in sale deeds, the Government issued instructions in November 2000 to all registering authorities in the State to the effect that agricultural land sold within municipal limits, with an area less than 1,000 square yards or in case where purchasers are more than one and the share of each purchaser is less than 1,000 square yards, be valued at the rate fixed for the residential property of that locality for the purpose of levying SD.

During test check of the records of 16 offices⁵ of SRs between April and September 2010 for the year 2009-10, we noticed that 64 sale deeds of plots within municipal limits with an area less than 1,000 square yards and in case where purchasers are more than one and the share of each purchaser is less than 1,000 square yards, were registered between April 2009 and March 2010. The deeds were liable to be assessed for ₹ 16.64 crore based on the rates fixed for residential areas and SD of ₹ one crore was chargeable. However, the registering authorities assessed the deeds for ₹ 5.03 crore based on the rates fixed for agricultural land and levied SD of ₹ 31.11 lakh. This resulted in short levy of SD of ₹ 69.10 lakh.

After we pointed out these cases between April and September 2010, 13 SRs⁶ stated between November 2010 and August 2011 that the cases had been sent to the Collector between June 2010 and January 2011 under Section 47-A of the IS Act for decision. Further, Collector Hisar stated in June 2011 that an amount of ₹ 83,400 in respect of JSR Barwala had been declared as arrear of land revenue. We have not received report on recovery and reply from the remaining SRs Bahadurgarh, Jhajjar and Karnal (October 2011).

Similar cases were also pointed out in earlier reports for the years 2006-07 to 2008-09 and Department replied that cases were referred to the Collector under Section 47 A of the IS Act for decision, and such mistakes are still repeated.

We pointed out the matter to the Revenue Department between June and November 2010 and reported to the Government in April 2011; we are yet to receive their reply (October 2011).

⁵ SRs: Bahadurgarh, Ballabgarh, Faridabad, Gharaunda, Gurgaon, Hansi, Hisar, Jagadhari, Jhajjar, Karnal, Ladwa, Pataudi, Pehowa, Shahbad, Thanesar and JSR Barwala.

⁶ SRs: Ballabgarh, Faridabad, Gharaunda, Gurgaon, Hansi, Hisar, Jagadhari, Ladwa, Pataudi, Pehowa, Shahbad, Thanesar and JSR Barwala.

4.3.2 Suspected misappropriation of stamp duty

Section 27 and Schedule 1-A of the IS Act, as applicable to the State of Haryana, provides that consideration and all other facts and circumstances affecting the chargeability of any instrument with duty, or the amount of duty with which it is chargeable, should be fully or truly set forth therein and deed of conveyance are required to be stamped on a slab according to the amount of the consideration for which conveyance is set forth therein.

During test check of the records of the offices of SR, Ballabgarh and Faridabad in September 2010, we noticed that nine conveyance deeds were registered between April 2009 and March 2010 on account of sale of immovable properties. The total value of properties set forth in all these conveyance deeds was ₹ 2.75 crore and SD amounting to ₹ 16.91 lakh was leviable. The registering authorities recovered ₹ 3.53 lakh and the differential amount of SD of ₹ 13.38 lakh was not recovered before registration of documents. Although, differential amount of SD of ₹ 13.38 lakh was shown to be recovered through receipt book (B⁷ book) on each of the instruments. Though the documents were registered, on cross verification with Daily Collection Register (DCR), we did not come across any entry of the requisite stamp duty having being collected and deposited in the Treasury/Bank. This resulted in suspected misappropriation of SD of ₹ 13.38 lakh.

After we pointed out (September 2010) these cases, Commissioner, Gurgaon Division investigated the cases registered and found that the receipt numbers given in the documents were fake and the registry clerks pocketed the amount instead of depositing in the exchequer, we have not received any reply from the Department regarding the cases of the year 2009-10 which were pointed out by audit.

We pointed out the matter to the Revenue Department between June and November 2010 and reported to the Government in March and April 2011; we are yet to receive their reply.

⁷ 'B' book is simply a kind of departmental receipt book through which deficient amount of stamp duty is collected.

4.3.3 Short levy of stamp duty on partition deed

Under Section 2 (15) of the Indian Stamp Act, 1899 (IS Act) as applicable to the State of Haryana also, “Instrument of partition” means any instrument whereby co-owners of any property divide or agree to divide such property in severalty, and includes also a final order for effecting a partition passed by any revenue authority or any civil Court and an award by an arbitrator directing a partition, on which stamp duty (SD) is chargeable at the rate of 1.5 per cent for the amount of the value of the separated share or shares of the property as envisaged in clause 45 of Schedule I-A of the IS Act.

During test check of the records of the offices of Sub Registrar (SR), Nilokheri and Indri in August 2010, we noticed that two partition deeds were registered between October and November 2009 valued at ₹ 3.48 crore as per Collector rate on which SD of ₹ 5.22 lakh was leviable but SRs levied ₹ 100 as SD on these instruments. This resulted in short levy of SD of ₹ 5.22 lakh.

After we pointed out these cases in August 2010, SR Nilokheri stated in March 2011 that the case had been sent to the Collector in October 2010 for favourable action under Section 47-A of the IS Act. SR Indri stated in August 2010 that action would be taken as per rules under intimation to audit. We have not received further report on recovery (October 2011).

We pointed out the matter to the Revenue Department in October 2010 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

4.3.4 Irregular exemption of stamp duty

By a notification issued on 11 August 1995, the Government remitted the SD in respect of the sale deeds to be got executed by the farmers whose land is acquired by Haryana Government for public purposes and who purchase agricultural land in the State within one year of the amount of compensation received by them for the acquired land.

During test check of the records of the offices of SR, Fatehabad and Kaithal in October and November 2010, we noticed that the farmers whose land was acquired by the Government for public purposes, purchased residential and agricultural land (having value more than the compensation amount received) valued as ₹ 4.96 crore and got registered three sale deeds. The registering authorities allowed exemption of SD of ₹ 4.31 lakh under aforesaid notification though SD was leviable since they had purchased one residential plot from the amount of compensation received and two agricultural land more than the compensation amount received. Thus,

irregular exemption of SD resulted in non-levy of SD to the extent of ₹ 4.31 lakh.

After we pointed out the case in October and November 2010, SRs Fatehabad and Kaithal stated in October and November 2010 that action would be initiated as per rules under intimation to audit. Further, Collector Kaithal stated in September 2011 that an amount of ₹ 1.36 lakh had been recovered in August 2011. We have not received report on recovery (October 2011).

We pointed out the matter to the Revenue Department in November and December 2010 and reported to the Government in April 2011; we are yet to receive their reply (October 2011).

CHAPTER V: MOTOR VEHICLE TAX

5.1.1 Tax administration

5.1.1.1 Passengers and goods tax

Registration of motor vehicles, assessments, levy and collection of passengers and goods tax (PGT) are governed under the provisions of the Punjab Passengers and Goods Taxation Act, 1952 (PPGT Act) and the Rules framed thereunder, as applicable to the State of Haryana. The Financial Commissioner and Principal Secretary to Government Haryana, Excise and Taxation Department is the administrative head at the Government level. Overall charge of the Department vests with the Excise and Taxation Commissioner (ETC), Haryana, Panchkula. The work relating to levy and collection of PGT is carried out by the Assistant Excise and Taxation Officers (AETOs) under Deputy Excise and Taxation Commissioners (DETCs) in the field. All the motor vehicles carrying goods and passengers are required to be registered with AETO of the district concerned, in which the owner of the vehicles has residence or place of business where the vehicle is normally kept in the State.

5.1.1.2 Taxes on vehicles

Registration of motor vehicles, issue of permits for plying of transport vehicles for carrying goods and passengers, issue of driving/conductor licences, levy and collection of token tax, permit fee, licence fee etc. are governed under the provisions of the Motor Vehicles Act, 1988, (MV Act), Central Vehicles Rules, 1989, the Haryana Motor Vehicles Rules, 1993, the Punjab Motor Vehicles Taxation Act, 1924 (PMVT Act), as applicable to the State of Haryana and the Punjab Motor Vehicles Taxation Rules, 1925. The Financial Commissioner and Principal Secretary to Government Haryana, Transport Department is the administrative head at the Government level and is responsible for the administration of the MV Act/Rules in the State and assisted by the Transport Commissioner, who exercises general superintendence over the functioning of the Department. The powers of Registering and Licencing Authority are being exercised by 54 Sub-Divisional Offices (Civil) in respect of non-transport vehicles, whereas 21 Secretary, Regional Transport Authorities (RTAs) are exercising the powers of Registering and Licencing Authority in respect of transport Vehicles.

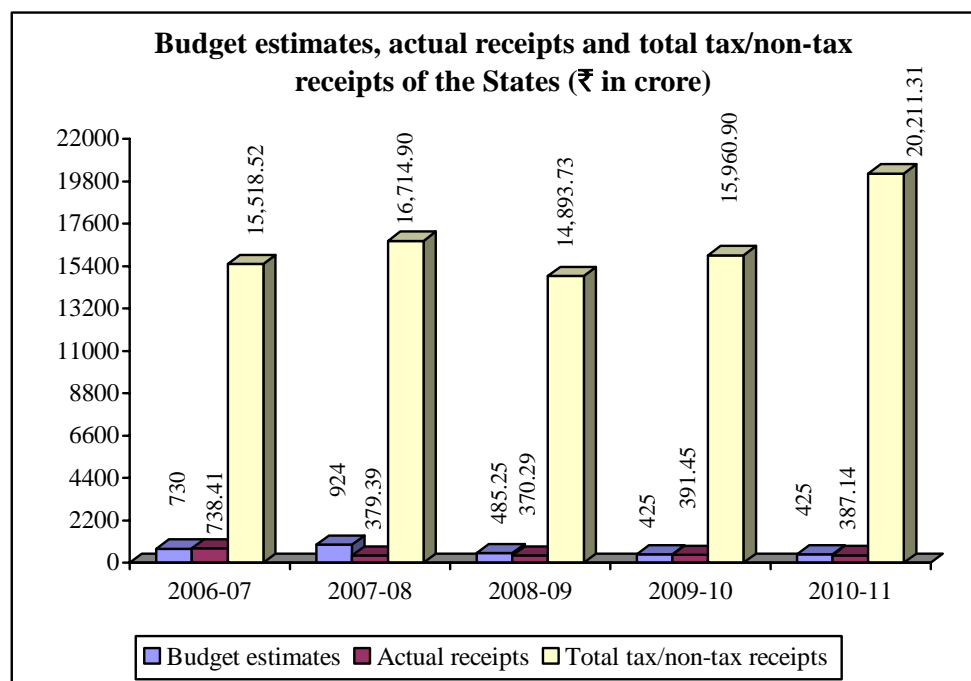
5.1.2 Trend of receipts

Actual receipts from PGT and Taxes on Vehicles during the years 2006-07 to 2010-11 along with the total tax/non-tax receipts during the same period is exhibited in the following table and graph:

5.1.2.1 Passengers and goods tax

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess(+)/shortfall (-)	Percentage of variation	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-a-vis total tax/non-tax receipts
2006-07	730.00	738.41	(+) 8.41	(+) 01	15,518.52	5
2007-08	924.00	379.39	(-) 544.61	(-) 59	16,714.90	2
2008-09	485.25	370.29	(-) 114.96	(-) 24	14,893.73	2
2009-10	425.00	391.45	(-) 33.55	(-) 8	15,960.90	2
2010-11	425.00	387.14	(-) 37.86	(-) 9	20,211.31	2

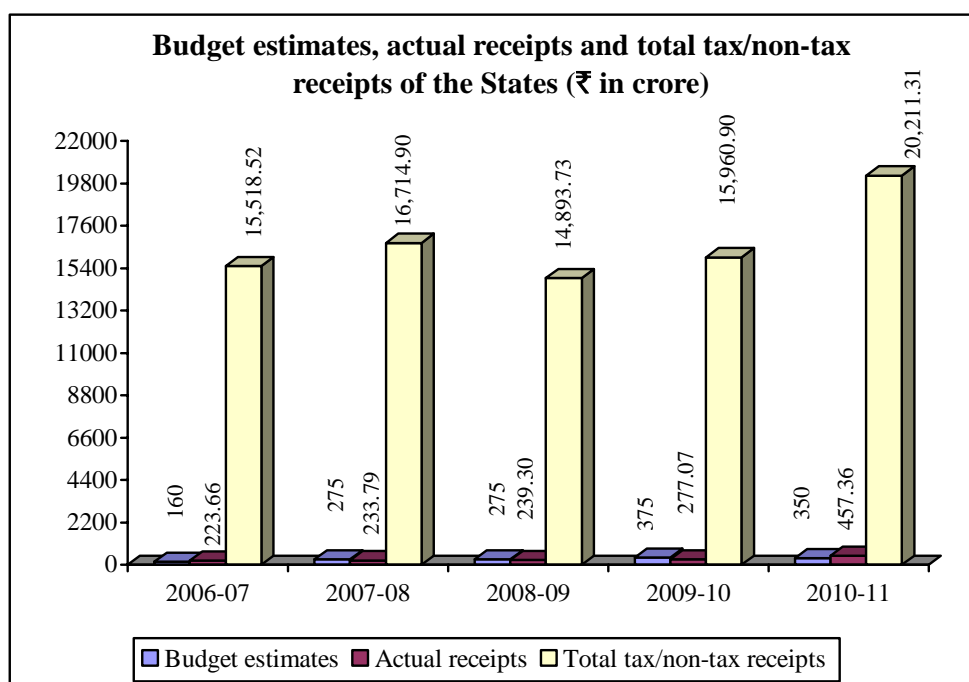


The actual receipts of the Excise and Taxation Department relating to Passengers and Goods Tax to the total tax/non-tax receipts of the State during the period 2006-07 to 2010-11, ranged between two to five *per cent*.

5.1.2.2 Taxes on vehicles

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess(+)/shortfall (-)	Percentage of variation	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-a-vis total tax/non-tax receipts
2006-07	160.00	223.66	(+) 63.66	(+) 40	15,518.52	1
2007-08	275.00	233.79	(-) 41.21	(-) 15	16,714.90	1
2008-09	275.00	239.30	(-) 35.70	(-) 13	14,893.73	2
2009-10	375.00	277.07	(-) 97.93	(-) 26	15,960.90	2
2010-11	350.00	457.36	(+) 107.36	(+) 30.67	20,211.31	2



The actual receipts of the Transport Department relating to Taxes on vehicles with reference to Budget estimates for the year 2006-07 to 2010-11 varied in a range between 35 to 107 *per cent*, which indicated that the budget estimates were not realistic.

5.1.3 Analysis of arrears of revenue

A: Passengers and goods tax

The arrears of revenue relating to PGT as on 31 March 2011 amounted to ₹ 59.41 crore of which ₹ 23.25 crore (39 per cent) were outstanding for more than five years. The following table depicts the arrears of revenue during the period 2006-07 to 2010-11:

(₹ in crore)

Year	Opening balance of arrears	Amount collected	Closing balance of the arrears	Actual receipts	Percentage (Col. 3 to Col. 2)	Percentage of closing balance of arrears to actual receipts (Col. 4 to Col. 5)
1	2	3	4	5	6	7
2006-07	36.00	10.09	51.97	738.41	28	7
2007-08	51.97	22.28	48.55	379.39	43	13
2008-09	48.05	11.52	58.08	370.29	24	16
2009-10	58.08	16.88	64.50	391.45	29	16
2010-11	64.50	13.96	59.41	387.14	22	15

We observed that arrears of revenue of PGT had increased from ₹ 36 crore at the beginning of the year 2006-07 to ₹ 59.41 crore (65 per cent) at the end of the year 2010-11. The percentage of realisation of arrears to the arrears outstanding at the beginning of the year ranged between 22 to 43 per cent during the period 2006-07 to 2010-11.

The Government may advise the Excise and Taxation Department to take effective steps for collecting the arrears promptly to augment Government revenue.

B: Taxes on vehicles

The Department intimated that there was an arrears of revenue of ₹ 3.03 crore as on 31 March 2010. Year-wise details of information regarding arrears of revenue viz. arrears pending at the beginning of the year, arrears added and collected during the year and arrears pending at the end of the year for the period 2006-07 to 2010-11 is not available with the Department. Thus, the Department had not maintained centralised database regarding arrears of revenue at the apex level for monitoring and expediting the progress of recovery of arrears.

5.1.4 Cost of collection

The gross collection in respect of PGT and Taxes on vehicles revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2006-07 to 2010-11 along with the relevant 'All India average percentage' of expenditure of collection to gross collection for the relevant year are mentioned below:

A: Passengers and goods tax

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection
2006-07	738.41	-	-
2007-08	379.39	1.13	0.30
2008-09	370.29	1.50	0.41
2009-10	391.45	1.94	0.50
2010-11	387.14	1.94	0.50

B: Taxes on vehicles

(₹ in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year
2006-07	223.66	6.93	3.10	2.47
2007-08	233.79	5.47	2.34	2.58
2008-09	239.30	8.00	3.34	2.93
2009-10	277.07	11.32	4.08	3.07
2010-11	457.36	13.38	2.93	-

Source: Finance Account.

5.1.5 Revenue impact of the Audit**5.1.5.1 Position of Inspection Reports****A: Passengers and goods tax**

The performance of the Excise and Taxation Department (PGT) to deal with the irregularities detected in the course of local audit conducted during the year 2009-10 and the corresponding figures for the preceding four years is tabulated below:

(₹ in crore)

Year	Units audited			Cases accepted		Recovery made during the year	
	Number	Number of cases	Amount	Number	Amount	Cases	Amount
2005-06	22	29	11.37	29	11.37	9	0.94
2006-07	22	1,325	2.65	501	0.95	2	0.17
2007-08	22	1,690	3.64	384	1.52	21	0.02
2008-09	22	1,406	1.94	319	0.36	18	0.06
2009-10	23	1,358	1.76	847	0.80	72	0.07
Total	111	5,808	21.36	2,080	15.00	122	1.26

We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only 8 per cent.

B: Taxes on vehicles

The performance of the Transport Department (Taxes on vehicles) to deal with the irregularities detected in the course of local audit conducted during the year 2009-10 and the corresponding figures for the preceding four years is tabulated below:

(₹ in crore)

Year	Units audited			Cases accepted		Recovery made during the year	
	Number	Number of cases	Amount	Number	Amount	Cases	Amount
2005-06	81	71,531	20.72	71,529	20.39	11	0.20
2006-07	81	66,261	18.43	-	-	-	-
2007-08	81	58,275	3.30	4,163	0.49	1	0.01
2008-09	81	4,209	2.11	1,523	1.42	81	0.10
2009-10	72	1,234	1.63	422	1.05	66	0.13
Total	396	2,01,510	46.19	77,637	23.35	159	0.44

We observed that the recovery in respect of accepted cases during the years 2005-06 to 2009-10 was only two per cent.

5.1.5.2 Position of Audit Reports

During the last five years (including the current year's report), audit through its Audit Reports had pointed out non/short levy/realisation of PGT, non-levy of interest on delayed/non-payment of tax, non/short realisation of permit fee/token tax/bid money etc., with revenue implication of ₹ 11.84 crore in 20 paragraphs (including one review). Of these, the Department/Government had accepted audit observations in 18 paragraphs (including one review) involving ₹ 9.56 crore and recovered ₹ 1.48 crore. The details are shown in the following table:

A: Passengers and goods tax

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	(₹ in crore)					
	No.	Amount	No.	Amount	No.	Amount
2006-07	1	1.12	1	1.12	1	57.22
2007-08	3	1.47	3	1.47	3	25.19
2008-09	1	0.99	1	0.99	1	4.52
2009-10	1	0.65	1	0.65	1	6.32
2010-11	1	1.46	1	1.46	1	9.61
Total	7	5.69	7	5.69	7	102.86

B: Taxes on vehicles

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	(₹ in crore)				(₹ in lakh)	
	No.	Amount	No.	Amount	No.	Amount
2006-07	3	1.20	2	0.55	2	18.64
2007-08	5	3.16	4	1.53	1	5.07
2008-09	2	0.63	2	0.63	2	7.78
2009-10	2	0.81	2	0.81	2	7.22
2010-11	1	0.35	1	0.35	1	6.33
Total	13	6.15	11	3.87	8	45.04

We observed that the recovery of accepted cases in respect of PGT and Taxes on vehicles was 18 and 12 *per cent* respectively. The slow progress of recovery even in respect of accepted cases is indicative of failure on the part of the heads of offices/Departments to initiate action to recover the Government dues promptly.

We recommend that the Government may revamp the recovery mechanism to ensure that at least the amount involved in accepted cases are promptly recovered.

5.1.6 Working of internal audit wing**A: Passengers and goods tax**

The Department stated (October 2011) that an internal audit system was set up for control and supervision of expenditure as well as receipts. The Department had one Chief Accounts officer, four (against five sanctioned posts) Accounts Officers and 11 (against 14 sanctioned posts) Section Officers. There were 17 Section Officers in the districts level offices who conducted internal audit in respect of the levy of PGT. Internal audit party had conducted 13 audits (against 23 auditable units) of revenue receipts and expenditure. The Chief Accounts Officer failed to furnish the details of objections raised and settled along with planning of auditable units and the coverage of internal audit was not adequate. Moreover, the irregularities discussed in the paragraph 5.3.1.1 to 5.3.1.2 are indicators of ineffective internal control mechanism as none of the irregularities pointed out by us were detected by the internal audit parties.

B: Taxes on vehicles

The Department stated (October 2011) that an internal audit system was set up for audit of expenditure and receipts. The Department had one Senior Accounts Officer (Audit), three Section Officers (Audit), one Assistant and two Clerks. The internal audit party had conducted audit of 21 RTAs and 50 registering authorities for the year 2010-11. The Senior Accounts Officer (Audit) failed to furnish the details of objections raised and settled along with planning of auditable units. The irregularities discussed in the paragraphs 5.4.1.1 to 5.4.1.2 are indicators of ineffective internal audit as none of the irregularities pointed out by us were detected by the internal audit.

The Government may consider strengthening internal audit wing to ensure timely detection and correction of errors in assessments, levy and collection of PGT and Taxes on vehicles revenue.

5.1.7 Results of audit

Test check of the records in the offices of Transport relating to revenue received from taxes on vehicles and taxes on goods and passengers during the year 2010-11 revealed non/short recovery of tax/duty, fees and penalty etc. amounting to ₹ 3.28 crore in 1,906 cases which fall under the following categories:

(₹ in crore)

Sr. No.	Category	Number of cases	Amount
A: Transport Department (Taxes on vehicles)			
1.	Non/short recovery of token tax in respect of stage carriage buses/combine harvesters etc.	418	0.92
2.	Non-recovery of bid money	45	0.53
3.	Short charging of permit/countersignature fees from owners of heavy/light transport vehicles	40	0.08
4.	Non/short realisation of registration fee and token tax on vehicles transferred from other States	111	0.02
5.	Miscellaneous irregularities	214	0.28
	Total	828	1.83
B: Excise and Taxation Department (Taxes on goods and passengers)			
1.	Non-recovery of passengers tax from bus owners of co-operative societies/ educational institutions	358	1.10
2.	Non-recovery of goods tax	709	0.34
3.	Miscellaneous irregularities	11	0.01
	Total	1,078	1.45
	Grand total	1,906	3.28

During the year 2010-11 the Department accepted underassessment and other deficiencies of ₹ 1.31 crore involved in 360 cases of which 313 cases involving ₹ 23.88 lakh had been pointed out during 2010-11 and balance in the earlier years. The Department recovered ₹ 1.07 crore in 47 cases during the year 2010-11, relating to the earlier years.

In this Chapter, we mention about non-observance of the provisions of the Punjab Passengers and Goods Tax Act and Non-observance of the provisions of Punjab Motor Vehicles Act. A few illustrative cases involving ₹ 1.81 crore are mentioned in the following paragraphs.

5.2 Performance Audit on Computerisation in Motor Vehicle Department

5.2.1 Highlights

- VAHAN and SARATHI had been implemented in 72 out of 76 locations in the State. Enforcement module had not been implemented anywhere in the State. Smart cards for registration and licences were not issued at any location.

(Paragraphs 5.2.9)

- Due to lack of IT strategy defining a time frame for implementation of the project in a complete manner, the Department failed to fully utilise the processing capabilities available in the system.

(Paragraph 5.2.10.1)

- Citizen centric services for online downloading and submission of forms, online appointments for driving tests, making payments etc. were not introduced with the result that citizens had to depend on commission agents for these services.

(Paragraph 5.2.10.7)

- Generation of cashbook through faulty customised reports facilitated short deposit of revenue amounting to ₹ 8.20 lakh in the Government account as seen in Rohtak district. In Faridabad, local software was used with no linkage with the VAHAN Application, defeating the purpose and advantage of VAHAN. In Gurgaon dual databases in VAHAN resulted in mismatches and non-integration of the database.

(Paragraphs 5.2.11.1 to 5.2.11.3)

- Delay in mapping revision in road tax rates in VAHAN software resulted in estimated loss of ₹ 1.26 crore.

(Paragraphs 5.2.12.1)

- Inadequate validation checks resulted in registration of vehicles with identical engine numbers/chassis numbers with the result that the objective of maintaining reliable data in State and National Registers was not achieved.

(Paragraph 5.2.13.1 to 5.2.13.3)

- Out of 15.45 lakh records, 2.91 lakh records had no valid vehicle insurance detail rendering more than 18 *per cent* of the data redundant. There were a number of cases of registration of two or more vehicles with common insurance cover note number.

(Paragraph 5.2.13.5)

- **Due to absence of inbuilt input validation controls, the SARATHI software did not block the invalid data and facilitated issue of licences to persons below the age of 18 years, double issue of driving licences, issue of driving licence before the prescribed time limit of 30 days from the issue of learning licence and other mistakes in issue of licence.**

(Paragraph 5.2.14)

- **There was no documentation of modifications made to the application software, user requirement specification, system design etc. Business continuity planning and training needs were not adequately addressed.**

(Paragraph 5.2.15.1)

5.2.2 Introduction

The Central Motor Vehicles (MV) Act, 1988 vests upon the State Governments the responsibility of providing an efficient public transportation system, registration of vehicles, issue of driving licences, road permits, fitness certificates of vehicles and collection of road taxes.

In order to discharge these functions, the Transport Department, Haryana has been bifurcated into two wings i.e. Operation Wing and Regulatory Wing. The operational wing looks after the operation of Haryana Roadways and is responsible for providing essential public transport services within the State as well as to important destinations in the neighbouring States.

The Regulatory wing looks after implementation of the Motor Vehicle Act/Rules, issue of Driving Licences, Registration of Vehicles, issue of Permits etc. and is responsible for regulation of Transport and other Road Safety issues etc. It is also entrusted with policy making, implementation and enforcement of transport rules to collect taxes and fees, under the Haryana Motor Vehicles Act, 1991, Haryana Motor Vehicles Rules, 1993, Central Motor Vehicles (MV) Act, 1988 and Central Motor Vehicles (MV) Rules, 1991.

The revenue from taxes on vehicles increased from ₹ 239.36 crore in 2008-09 to ₹ 443.23 crore in 2010-11. In order to computerise all the processes involved in issue of Driving Licences, Registration of Vehicles, Issue of Permits etc. the Ministry of Road Transport and Highways (MoRTH) Government of India (GOI) advised all the States to implement standard software VAHAN and SARATHI developed by NIC in the year 2002. The Software and hardware were provided free of cost to all the States. The objective of computerisation was to build a comprehensive national database of vehicles and licences and to make documents issued by any State readable throughout the country.

We undertook an IT review of “Computerisation in Motor Vehicles Department”. The review revealed number of system and data deficiencies which are discussed in the succeeding paragraphs.

5.2.3 Organisational set up

At apex level, Financial Commissioner and Principal Secretary, Transport Department is responsible for formulation of policies, programmes and their implementation by the Department. In performance of duties, he is assisted by Transport Commissioner who exercises general superintendence over the functioning of the Department. Two Additional/Joint Transport Commissioners are the next higher authorities under the Transport Commissioner, who supervise the overall functions at the Headquarter and field offices.

The Secretaries, Regional Transport Authorities (RTAs) are primarily responsible for enforcement of the provisions of Motor Vehicles Act/Rules in respect of transport vehicles. There are 21 district offices, each of which is headed by Secretary, RTA, who register transport vehicles and issue learner/driving licences in respect of such vehicles.

54 Sub Divisional Officers (SDOs) (Civil) in the State have been notified as Registering and Licensing Authorities to register vehicles for private use (non-transport) and issuance of learner/driving licences in respect of such vehicles and also the conductor licences.

5.2.4 Audit objectives

Information Technology (IT) based review of two applications of Transport Department was undertaken with a view to ascertain whether:

- IT plan was prepared and the Softwares were implemented as per prescribed time schedule;
- data captured through local applications implemented by some of the offices for vehicles registration and driving licences have achieved computerisation objectives of the Ministry;
- computerised systems were implemented completely and data captured by RA/RTA offices was correct, complete and reliable;
- reliable general and security controls were in place to ensure data security and audit trail;
- back up of data was being taken regularly to prevent data loss and disaster recovery management system was effective to have an overall assurance of the functioning of computerised system;
- internal control mechanism was in place at State level to monitor the implementation of the project; and
- the overall objectives of Computerisation through NIC developed computer applications were achieved.

5.2.5 Audit criteria

The audit objectives were evaluated against the following criteria:

- Haryana Motor Vehicles Act, 1991

- Haryana Motor Vehicles Rules, 1993
- Central Motor Vehicles (MV) Act, 1988
- Central Motor Vehicles (MV) Rules, 1989
- Agenda and minutes of IT PRISM; and
- Generally accepted IT best practices.

5.2.6 Scope of audit and methodology

Thirteen¹ RAs and six² RTAs were selected for field study using Simple Random Sampling without Replacement (SRSWOR) method. Databases maintained by these test checked offices in respect of these applications pertaining to period since inception till date of audit (during July-September 2011) was analysed by using Computer Aided Audit Techniques (CAATs) Interactive Data Extraction and Analysis (IDEA). In addition, record maintained in the office of Transport Commissioner pertaining to these Softwares was also examined.

5.2.7 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing necessary information and data of these Software for analytical purpose. We had forwarded the draft review report to the Department and Government in October 2011. An exit conference was held on 7 December 2011 with the Financial Commissioner and Principal Secretary, Transport Department. During the exit Conference, the findings of the review and recommendations were discussed. The replies furnished by the Department during the exit conference and at other times have been appropriately incorporated in the respective paragraphs.

The FC&PS also stated (December 2011) that the recommendations would be examined and considered.

5.2.8 Significance of database

As on March 2010, there were 56.03³ lakh vehicles on road and 35.52 lakh persons were having valid driving licences all over the State. Legacy data of all the vehicles and licences is envisaged to be captured through these softwares.

At all test checked locations, issuance of driving licences and Registration Certificates was being done through VAHAN and SARATHI Software and vital details about vehicles like date of purchase, chassis number, engine number etc was being transferred to State and National Registers. Proper capture of these details can be of immense use to law enforcing agencies, keeping in view the deteriorating law and order position especially in National Capital Region. At some of the key test checked locations like Gurgaon,

¹ RAs: Ambala, Barara, Faridabad, Gurgaon. Karnal, Kurukshetra, Naraingarh, Jhajjar Panipat, Rewari, Rohtak, Sonapat and Yamunanagar.

² RTAs: Faridabad, Gurgaon, Karnal, Panipat, Rewari and Sonapat.

³ Transport: 484878 and non-transport: 5118324

Rohtak and Faridabad, RAs had dispensed with manual cashbook and were maintaining electronic cashbook/Daily collection Registers.

5.2.9 Information set up of VAHAN and SARATHI

VAHAN Software

The VAHAN Software was designed to feed all the information relating to motor vehicles from the Vehicle Registration files. The system sought to achieve following objectives:

- creation of a National Register which would serve as a national database for number of registered vehicles, their category-wise breakup, age profile etc.;
- better planning of the transport sector by using computerised database;
- prevent leakage of revenue and augment tax collection by using data for collection of road taxes and tracking tax arrears;
- cutting down delays at inter-State borders and reducing existing barriers by maintaining a uniform document containing relevant data of vehicles; and
- Inter-connectivity amongst RAs/RTAs in the State.

SARATHI Software

The SARATHI Software was designed to feed all necessary information relating to issue of driving licences. The system sought to achieve following objectives:

- Proper Learner Licence and regular driving licence Management;
- Maintenance of State and National Registers of Driving Licences; and
- Providing Citizen centric services

VAHAN and SARATHI have been developed by NIC as mission mode projects under National e-Governance Programme (NeGP). Separate databases for each RA/RTA in client server architecture with front end in Visual Basic and database in Structured Query Language at backend was being maintained. Connectivity with Haryana State Wide Area Network had not been established. The data was being transferred to NIC State Headquarters through Virtual Private Network from 72 out of 76 locations. Connectivity had not been established at four⁴ locations. From the database available at 72 locations, selected information was being captured in State Registers which are envisaged to act as State repository of all crucial data/information. Smartcard based registration certificates and licences were not being issued at any test checked locations due to non-finalisation of tenders.

⁴ RTA Palwal, RA Panipat, Gohana and Ferozpur Jhirka.

Audit Findings

5.2.10 Deficiencies noticed in planning and implementation of the system

5.2.10.1 Lack of IT strategy and planning resulting in implementation of unauthorised Software

GOI instructed (January 2002) that uniform format and standardised software VAHAN and SARATHI may be adopted for issue of Driving Licences (DLs) and Registration Certificates (RCs) using smart cards by the Transport Departments of all the States so that a National Register of motor vehicles readable throughout the country prepared and leakage of revenue could be prevented.

It was observed during audit that in the absence of any IT strategy and proper planning, there was inordinate delay in implementing 'VAHAN' and 'SARATHI'. During the period 2003 to 2006, at many locations, unauthorised softwares were implemented instead of 'VAHAN'. Frequent need based changes in database structure as well as field structure was made by local officials of NIC without adopting any proper procedure. Due to use of unauthorised software, the project got unduly delayed as the data captured through these unauthorised Software could not be migrated to VAHAN and SARATHI Software. The updation of legacy data at these locations was being done manually with the result that data available in VAHAN was incomplete and financial data was not comparable with manual cashbook.

5.2.10.2 Partial utilisation of the system

The VAHAN Software was designed to automate the management of complete information related to vehicle registration. Analysis of data revealed that all the modules of VAHAN were not being put to use by the field offices with the result that Department failed to fully utilise the processing capabilities available in the system.

In 12⁵ out of 19 locations test checked, financial data including maintenance of cashbooks and issue of receipts was manual. The system at these locations was being used only for taking print-outs of RCs by capturing information relating to owners, vehicles etc.

The working of the enforcement wings could not be monitored as the data pertaining to offending vehicles on road for fitness or laden weight offences had not been captured. Due to non-maintenance of database of offending vehicles, compounding of fine and taking deterrent action against the habitual offenders could not be taken effectively.

Audit feels that complete workflow of the VAHAN Software may be implemented so as to fully utilise the processing capabilities available in the system.

⁵ Six RAs: Ambala, Barara, Karnal, Naraingarh, Panipat, Sonapat
Six RTAs: Faridabad, Gurgaon, Karnal, Panipat, Rewari & Sonapat

5.2.10.3 Lack of change control mechanism

Changes/modifications in the system were carried out by NIC authorities on the basis of requirement of RAs/RTAs after replication but no procedures were framed for authorisation and documentation of changes at an appropriate level. The change control mechanism, as such, was fraught with the risk of unauthorised changes not being detected.

Further, before issuing notification making any change in business rules, necessary changes in the Software should have been incorporated and the Transport Department should have monitored that revision is carried out uniformly throughout the State from the date of notification to avoid any loss to the State exchequer.

It was observed in audit that no monitoring cell had been established in the Department with the result there was delayed implementation of instructions concerning enhanced rates of various taxes/penalties resulting in short realisation of revenue as discussed in paragraphs 5.2.12.1 and 5.2.12.2.

5.2.10.4 Lack of proper documentation and system development controls

Before developing any computer system, user requirement specifications (URS) and software requirement specifications (SRS), which give the complete description of the system to be developed, should be approved by the management. Also, documentation such as URS, SRS, detail design, data flow diagram, data dictionary, relationship between tables *etc.*, is crucial for continuity of the computerisation project. It is all the more necessary since the implementation of these Softwares has been outsourced. Subsequent vendor, who is awarded the contract, needs to have proper documentation to understand the existing application and effective discharge of the functions. It was observed that documentation of these Software was not available at test checked locations.

5.2.10.5 Inordinate delay in finalisation of tenders of smartcards

The purpose of VAHAN and SARATHI project was to issue driving licences, registration certificates and permits by using Smart card technology. Tenders for this purpose were invited (December 2002) and in response seven firms had quoted their rates. The tenders were subsequently rejected in July 2004.

The matter was discussed in the 32nd meeting of Technical Committee held on 5 September 2006 wherein it was decided that work relating to historic data should be outsourced and matter regarding smart card based driving licences and registration certificates should be kept pending.

In a meeting held on 14 January 2008 under the Chairmanship of FC&PS, it was decided that the project would be outsourced to a vendor on BOOT basis. MoRTH provided IT infrastructure (Servers, Computers, Printers, networking and other accessories) and also funded establishment of VPN or BSNL broadband connectivity at a cost of ₹ 8.55 crore and deadline of 31 December 2009 was fixed to implement the smartcard based driving licence and registration certificates.

It was observed during audit that the Department had not finalised (August 2011) the tenders for smartcards even after nine years of first invitation of tenders. As a result, RCs were still being printed on ordinary paper and security checks as envisaged in GOI scheme could not be introduced.

During Exit Conference, the ATC informed that process of vendor selection was underway.

5.2.10.6 Non-development of technical expertise within the Department

Any IT system though developed/implemented through outsourcing has to be invariably taken over by the Department, eventually by developing expertise within the Department. It was observed that VAHAN and SARATHI software system's front desk operations were being directly handled by the staff of multiple agencies at different locations viz; Balbhawan, DITS and District Red Cross Societies with the support of the National Informatics Centre. In RA, Faridabad, DRC had further awarded the work to a vendor. No training has been provided to the office staff of RAs/RTAs, in operation of these systems with the result, the Department is still dependent on the third party outsourcing agencies. No MOU has been signed with these Societies underlying terms and conditions regarding qualification of staff to be recruited for this purpose, tolerance limit of acceptance of errors etc and penalty to be levied in case errors in the data exceed permissible limit. The digitised data is neither being checked by staff of RAs, nor by DRCs/DITS resulting in data errors shown in paragraphs 5.2.11 to 5.2.14.5.

5.2.10.7 Non-provision of citizen centric service

One of the objectives of the project was to provide services relating to issue of driving licences and Registration certificates to citizens in an efficient and prompt manner with minimum interface or presence of applicants. It was observed that online downloading and submission of duly filled forms to the Registering/Licensing Authorities, taking appointment online for appearing in the test of competence to drive and integration of payment gateway had not been started at any locations test checked with the result that citizens had to depend upon commission agents for these services.

5.2.10.8 Monitoring and evaluation of the project

VAHAN and SARATHI are Centrally funded projects for which NIC is providing technical consultancy. No monitoring cell was, however, established in the Transport Department to collect and analyse periodic MIS returns generated through Software and making timely intervention for ensuring effective programme implementation. Internal audit has also not been involved in the checking of financial and other data pertaining to vehicles and owners resulting in incorrect capture of data.

Further, proper stock registers of hardware and Software provided free of cost by GOI had neither been maintained at Headquarter nor in any of the offices

test checked. Physical verification of these assets had never been conducted (October 2011).

In Tosham, hardware provided by GOI was stolen and in Rewari, the hardware got burnt in an accidental fire.

5.2.11 Deficiencies in operation of Vahan Software

5.2.11.1 Generation of Daily Collection Registers (DCRs)/cashbook by designing unauthorised print reports facilitating short deposit of revenue in the Government account: ₹ 8.20 lakh

Rule 2.2 of Punjab Financial Rules, as adopted by the Haryana Government, requires a Drawing and Disbursing Officer (DDO) to satisfy himself that all the monetary transactions are entered in the cash book as soon as they occur and are attested by him. The official who receives the money on behalf of the Government is required to deposit the amount into the treasury/bank on the same day or in the morning of the next day. The head of the office is also required to verify all the entries including totals of all the entries in the cash book or have this done by some responsible official other than the writer of the cash book and initial all entries as correct.

In RA, Rohtak, manual DCRs/cashbook was dispensed with and generation of receipts and cashbook were started electronically w.e.f 16 March 2011. Instead of using standard Software VAHAN for generating DCRs/ cashbooks, in-house crystal reports were designed which were neither tested nor documented before implementation. We observed that while designing these crystal reports, some of the fields were not mapped properly with the result, these totals of cashbook generated through these reports did not reflect total money collected from general public on account of fee, taxes, road tax and other incidental charges for getting vehicles registered. Further, tables of VAHAN designed to capture financial details were not joined

properly with the result that some of the receipts entered in the database were missing in electronic DCRs/cashbook.

In contravention to the codal provisions referred *ibid*, the monetary transactions entered in the DCRs/cash book were not attested and tallied by the head of office with the receipts actually issued to public. Alterations in totals of DCRs/cashbooks were done by dealing hand manually in some cases and these totals were not checked independently by any other official.

Analysis of data for the period 16 March 2011 to 6 September 2011 revealed that due to incorrect design of customised crystal reports, collection of fees, fines and Government taxes was less reflected to the extent of ₹ 8.20 lakh in the DCRs/cash books. Based on the totals of cash books/DCRs, corresponding amount was also less deposited in the treasury.

During the process of analysing the details of amount short deposited, files and other records pertaining to Registration of vehicles were checked which revealed that:

- Due to improper joining of tables in crystal reports, 38 receipts involving extra fee of ₹ 4.92 lakh collected from public for allotment of choice /out of turn numbers (**Annexure-VI**) were not appearing in electronic cashbook and deposited in treasury thereby resulting in short deposit of Government receipts to that extent.
- Due to improper mapping of fields, total collection was reflected less in the electronic cashbook and based on these totals, ₹ 0.89 lakh (**Annexure-VII**) were less deposited in the treasury.

We could not examine the records pertaining to balance shortage of ₹ 2.39 lakh as vital details like Registration numbers, name of owners of vehicles had not been indicated against these cases in DCRs/cashbook. Examination of one such case, however, indicated that these records pertained to cases where the applicants while registering new vehicles, had chosen to retain their old numbers but in the Software, details of taxes and vehicles were not swapped.

Regarding non swapping of details of vehicles where the applicant chooses to retain his old registration number, the technical advisor, NIC in the Exit Conference admitted that this facility was not available in the Software.

The Additional Transport Commissioner in December 2011 stated that unaccounted Government revenue of ₹ 8.03 lakh had been recovered from the delinquent official.

5.2.11.2 Usage of local software having no linkage with VAHAN

In RA, Faridabad, the work relating to issue of Driving Licences and Registration Certificates had been outsourced to an external agency. Analysis of data revealed that outsourced agency was not implementing complete workflow of VAHAN and SARATHI Software. The outsourced agency was using these Software only for taking printouts of Registration Certificates and licences by capturing information relating to owners, vehicles etc. The financial data was entered in unauthorised Software developed in Foxpro by the vendor to generate cashbook and issue receipts which was editable and did not facilitate automatic calculation of tax. The Software had no linkage with VAHAN Software and vital details like sale price of vehicles, chassis number and engine number of vehicles were not being captured. The source code was available with the data entry operator deputed by outsource agency who was given exclusive rights in this Software.

Generation of cashbook and issue of receipts through an unauthorised Software which is neither documented nor tested was fraught with the risk of financial irregularities.

The ATC stated in December 2011 that instructions have been issued to all the field offices to stop usage of unauthorised Software.

5.2.11.3 Dual database

In RA, Gurgaon, VAHAN had been installed at two nodes which had been linked to two different databases. In one database, details relating to collection of fee and taxes were being stored and in the other database, details of vehicles and owners were being stored. In the database pertaining to collection of fee and taxes, only last four digits of chassis number and first name was captured to generate receipt for cash received from a person. In the database pertaining to capture vehicle details, dummy entry of zero or one was being reflected in the field designed to capture sale price of vehicle with the result zero tax was being reflected in the field designed to automatically calculate tax. These two databases were not linkable as temporary Registration number starting with “ZZ” was being generated in the database pertaining to fee and taxes whereas Registration number starting with “HR” was being generated in the other database. Similarly, other fields like chassis number and name were also non-linkable as part information was being captured in the database pertaining to fee and taxes and none of the databases was complete and showed reliable information stored in the fields designed to capture financial transactions and vital details of vehicles.

RA, Gurgaon in his reply (September 2011) stated that matter will be taken up with NIC officials and single database would be maintained hereafter.

5.2.12 Mapping of business Rules

5.2.12.1 Delay in implementation of revised rates of road tax

The Government of Haryana notified the enhancement of road tax based on value of vehicle on 13 January 2011. Audit observed that enhanced rates in the Software were not modified timely. Analysis of data of 13⁶ test checked RAs revealed that system calculated road tax at old rates causing a tentative loss of ₹ 5.52 crore.

Five RAs⁷ which were maintaining electronic cashbooks while confirming loss of ₹ 1.26 crore in their reply (June-September 2011) stated that instructions of Transport Department were received late in the evening and hence were implemented on the next day.

Actual loss in other test checked RAs where computerised database was showing less collection of tax to the extent of ₹ 4.26 crore could not be ascertained as:

- issue of receipts and maintenance of cashbooks was manual and system generated receipt number and date of receipt available in the Software had no linkage with manual receipts;
- financial data captured in the VAHAN Software was unreliable as discussed in paragraphs 5.2.10.2, 5.2.11.2 and 5.2.11.3; and

⁶ Ambala, Barara, Faridabad, Gurgaon. Karnal, Kurukshetra, Naraingarh, Jhajjar, Panipat, Rewari, Rohtak, Sonapat and Yamunanagar.

⁷ Gurgaon. Jhajjar, Rewari, Rohtak and Sonapat.

- changes in the Software had not been made on due dates. In RA, Panipat Software had not been modified even after six months from the date of notification.

5.2.12.2 Delay in implementation of revised penalty rates

Section 41 (11) of Motor Vehicle Act, 1988 *inter-alia* lays down that in case owner of a vehicle fails to make an application under sub-section 1 or sub section 8 to the Registering Authority for registration of his vehicle within 1 month from the date of purchase of vehicle, penalty not exceeding ₹ 100 would be levied under section 177 of the Act by the registering authority on account of this delay. Further the Department notified (12 July 11) that in case the vehicle is not registered within 21 days from the purchase of vehicle, penalty at the rate of 0.5 per cent of the lump sum onetime tax payable would be charged on per day basis. The penalty was to be charged w.e.f. 22nd day from the date of purchase of vehicle and was to be restricted up to twice the amount of tax due.

Analysis of electronic data pertaining to 3 RAs⁸ revealed that in 3,896⁹ one time tax paid cases, applications for registration of vehicles were filed after a delay of permissible period of 21 days. Fine amounting to ₹ 45.08 lakh was due in these cases. Neither any provision for calculation of fine was incorporated in the Software nor was fine manually calculated and entered in the database.

The RAs in their reply stated that penalty could not be imposed as letter issued by Transport Department was not received in time. RA, Jhajjar stated that instructions had not been received till the date of audit (September 2011).

We feel that application should be Web enabled so that any changes in the business rules can be uniformly implemented throughout the State in time.

The Technical Director, NIC stated in December 2011 that modalities were being worked out at NIC level to make these Software Web enabled so as to avoid such type of delays.

⁸ Rewari: ₹ 2272142, Rohtak: ₹.1800188 and Jhajjar: ₹ 435262

⁹ Data of RA: Jhajjar, Rewari and Rohtak only was available after July 2011.

5.2.12.3 Non-Availability of MIS reports to identify the vehicle required to be re-registered

Sec 41(7) of Central Motor Vehicles Act, 1988 provides that a certificate of registration in respect of a motor vehicle, other than a transport vehicle, shall be valid only for a period of 15 years from the date of issue of such certificate and shall be renewable. Further as per provisions of Rule 52(3) of Central Motor Vehicle Rules 1989, a motor vehicle shall not be deemed to be fit for plying after the expiry of the period of validity entered in the certificate of registration and no such vehicle shall be used in any public places until its certificate of registration is renewed.

An analysis of owner table of VAHAN database revealed that since legacy data of vehicles registered earlier through unauthorised software had not been migrated to VAHAN Software, necessary monitoring was not being done to check plying of vehicles with lapsed registrations. Analysis of available data at test checked locations revealed that 18,340 vehicles had their registrations expired. The

owners of the vehicles have not re-registered their vehicles in contravention to the provisions stated, *ibid*. Apparently, the vehicles were plying on the road without fitness.

Data Accuracy of Vahan

5.2.13 Lack of input validations

In order to ensure that database of computerised system is reliable, correct and complete in all respects, the procedures and controls should guarantee that the data received for processing is genuine, complete, accurate and properly authorised.

The following discrepancies were noticed which were due to absence of data validation checks:

5.2.13.1 Assigning of same engine number and chassis number to more than one vehicle

Chassis/Engine number is unique to each vehicle and the same cannot be allotted to more than one vehicle. Analysis of data of test checked offices revealed that there were 36,900 vehicles (**Annexure-VIII**) with same Engine number. In 18 cases, vehicles having same chassis and Engine number had been assigned different registration numbers. Further, 166 duplicate chassis numbers (**Annexure-VIII**) with different transactions were also noticed which is indicative of absence of validation checks in the system and also inadequate supervisory controls over the input to ensure accuracy of data.

5.2.13.2 Tampering of chassis number

In case of chassis number, a check is embedded in the software which does not allow input of duplicate chassis number. Analysis of data revealed that in 2043 cases (**Annexure-VIII**), data entry operators surpassed the validation check by putting an extra symbol while feeding the chassis number and allowing the vehicle to be registered with another registration number having same engine number. The tampered data was being replicated in State Registers and National Registers also.

Analysis of data further revealed that in 40 cases, vehicles bearing same Chassis number and Engine number had been registered by more than one Registering authority within the State. Duplicate registration of the same vehicle was not only illegal but was obviously fraught with the risk of plying invalid/stolen vehicles as well as insurance irregularities by declaring non-existent vehicles as stolen.

5.2.13.3 Incomplete capture of chassis code

As per standard codification adopted worldwide by the automotive industry, Chassis numbers are assigned 17-character code. First two characters denote country of origin. Similarly, other 15 characters also contain vital details relating to make, model etc. All the 17 characters are kept unique for a vehicle and are not repeated by automobile manufacturers. As such this code is helpful for Police and other crime prevention agencies for identifying a vehicle.

Analysis of electronic data revealed that Chassis numbers had not been entered in the database as per the standardised format. Instead of giving proper code, either hyphenation was used or numeric code of less than six characters was captured. Instances of 75,912 such records have been shown in **Annexure-VIII**.

Due to incomplete capture of code, whole exercise of maintaining a reliable data of all the vehicles on a National/State Register might be rendered futile as incomplete code will neither be unique nor enable the Police and other agencies in identifying these vehicles.

The FC&PS in December 2011 stated that staff needs to be sensitised regarding complete capture of chassis codes. The FC&PS also expressed his concern regarding registration of 40 vehicles bearing same chassis and Engine number by more than one Registration authority within the State and wanted to know how it was happening.

We feel that validation checks should be strengthened and internal audit should be involved in the checking of data so that data available in State and National registers is reliable.

5.2.13.4 Unreliable data

On receipt of application for registration, VAHAN auto generates a receipt number. In this receipt number, vehicle class, sale amount of vehicle forms the basis of registration fee as well as road tax for the system.

Analysis of data revealed that in many cases, there was a mismatch between amount due and amount calculated by Software. Further analysis revealed that details of owners had been interchanged in favour of certain applicants for allotment of Registration numbers of their choice.

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

Rule 47 of CMV Rules prescribe Form 20 for the application of vehicle registration in which the insurance certificate or the cover note is to be filled in by the owner of the vehicle.

There was no validation check in VAHAN to ensure that the insurance cover note submitted for a particular vehicle was not re-used for registration of other similar vehicles with the result that system was fraught with the risk of same insurance cover note being used again and again for registering more than one

vehicle. The transport authorities also did not verify the validity of insurance cover note submitted along with application. Test check of the data relating to insurance cover note numbers in 15.45 lakh records indicates that there was repetition of the insurance cover notes in 2.91 lakh vehicles. The recurrence of multiplicity of the insurance certificate/cover note numbers indicated that the insurance certificate/cover note numbers might have been forged to get the vehicles registered which would give rise to legal complications.

RAs in their reply (June-September 2011) stated that discrepancies pointed out by audit would be rectified with the help of NIC officials and Data entry operators have been instructed to be careful in future.

5.2.14 Data Accuracy of SARATHI

Analysis of data of 13 RAs revealed that input validation controls had not been inbuilt in the system to ensure that the system accepted only valid data and invalid data like issue of licences to minors and other mistakes in data entry process etc, were blocked by the computerised system as discussed in succeeding paragraphs:

5.2.14.1 Issue of double licences

Section 6 (1) of the Motor Vehicle Act, 1988 provides that no person can hold more than one licence at a time.

Analysis of the SARATHI data provided by the test checked offices revealed that the authorities had issued double licences to 889 persons (**Annexure-IX**) in violation of the above said provisions of the Act.

5.2.14.2 Issue of licence to underage persons

As per section 4 (1), no person under the age of 18 years can ply vehicles above 50 CC.

Analysis of data revealed that in 690 cases, (**Annexure-IX**) licences for plying vehicles above 50 CC had been issued to persons below 18 years of age.

5.2.14.3 Issue of regular licences within 30 days of issue of Learning Licence

As per rules for issuance of regular driving licence, the applicant must be holding learner's licence for at least 30 days.

Analysis of data revealed that in 34,931 cases (**Annexure-IX**) regular licences had been issued to applicants who had held the learner's licence for a period less than 30 days at the time of issuance of regular licences which is indicative of the fact that there is no common field in both of the modules to check and prevent these lapses.

5.2.14.4 Issue of driving licence on the basis of expired learning licences

Section 14 (1) of the Motor Vehicle Act, 1988 provides that a learner's licence issued under this Act shall be effective for six months.

Analysis of the data revealed that in 66,328 cases (**Annexure-IX**) regular licences had been issued to the applicant whose validity of learner licences had expired which is indicative of insufficient validation controls.

5.2.14.5 Issue of driving licence of four wheelers on the basis of learning licence of two wheelers

Analysis of data revealed that in 9880 cases (**Annexure-IX**), learning licence had been issued for two wheelers but regular driving licences had been issued for four wheelers.

The RAs in their reply stated (July-September 2011) that validation checks will be incorporated in the Software with the help of NIC authorities. The reply is not tenable as before signing the licences, the authorities should have ensured that provisions laid down in the Motor Vehicle Act/Rules are complied with.

The FC&PS in December 2011 expressed his concern regarding discrepancies noticed in the issuance of driving licence. He stressed the need to plug the loopholes in the validation checks of this Software at National level so as to avoid such type of lapses.

5.2.15 Data safety and Security

5.2.15.1 Insufficient logical controls and non segregation of duties

In a computerised environment, rights of different users should be clearly defined and access of database should be restricted depending upon responsibility of the users.

Analysis of data of VAHAN and SARATHI Software revealed that logical controls in these application Softwares to protect data from unauthorised persons were not effective. No documented procedure to the user privileges for authorising access to the system was being followed in test checked offices. Privileges of 'administrator' were being exercised by clerks which might create potential risk to the integrity of data and system as a whole. Further, though operators had been assigned different user_id and passwords at all the locations but it was observed that operators were sharing their passwords and no password policy had been framed.

We feel that a proper password policy may be framed and logical controls should be strengthened.

5.2.15.2 Absence of Business Continuity and disaster recovery plan

Proper disaster management system is necessary to ensure that in case of loss of data due to crash of hard disk, earthquake etc. system can be put in place without any delay. It was observed in audit that the Department did not have a formal business continuity and disaster recovery plan for continuation of the Departmental activities in the event of a disaster. Neither any backup server had been maintained nor had any team been constituted to resume the work in case of server failure.

5.2.16 Conclusion

There has been delay in implementation in the project in a complete manner. Even after nine years, all the modules are not yet operational. The financial data captured through these Softwares is neither complete nor reliable as the cash books and issuance of receipts was still manual in most of the offices test checked. Process of finalisation of tenders for smartcards had not been completed even after nine years of invitation of tenders. There is a lack of in-house expertise for running the system. Involvement of top level management in the system development and its functioning was inadequate. Lack of adequate supervision has resulted in erroneous data capture thereby resulting in data redundancy. The Department has not been able to extract useful information from the system regarding defaulters through VAHAN in any of the RTAs test checked and has thus failed to exploit the full potential of the system.

5.2.17 Recommendations

The Government should consider:

- setting a time frame for different stages of the computerisation and ensuring implementation of the project in a complete manner;
- preparation and maintenance of system documentation and manuals including training manuals; and drawing up an IT security policy with a credible threat assessment mechanism and disaster recovery and business continuity plan for harnessing optimum output from the system;
- ensure issue of RCs and driving licences on smart cards;
- maintaining a well documented change management procedure for ensuring transparency and effective internal controls;
- strengthening the validation control at the time of data capture and proper supervision of data entry process and strengthening of input and processing controls to prevent entry of incorrect and redundant data into the system; and
- making generation of exception reports at regular intervals mandatory to identify vehicles violating the MV Act and Rules.

Other Audit observations

EXCISE AND TAXATION DEPARTMENT

5.3 Non-observance of the provisions of Acts/Rules

The Punjab Passengers and Goods Taxation Act, 1952 (PPGT Act) and rules framed thereunder, as applicable to the State of Haryana, provide for levy of passengers tax at the prescribed rate.

While the owners of the vehicles did not pay the tax, the Department also did not issue the demand notice as required in the cases as mentioned in the paragraph 5.3.1. This resulted in non/short realisation of tax of ₹1.46 crore.

5.3.1 Non/short realisation of passengers tax

Under Section 22 of the PPGT Act and the rules framed thereunder, as applicable to the State of Haryana, the owner of the bus shall pay lump sum tax in advance by 20th of each month either by making deposit into the Government treasury or by furnishing demand draft or pay order to the appropriate authority. PPGT Rules, 1952 provide that if any sum is payable by an owner under the Act or rules, the assessing authority shall serve a demand notice (fix a date not less than 15 days from the date of service) by which the owner shall furnish the receipted challans in proof of such payment. Under Section 14 (B) of the Act, where any tax or penalty is not paid within prescribed time, the owner of the vehicle shall be liable to pay interest at the rate of two *per cent* per month on the amount of tax and penalty remaining unpaid for a period not exceeding three months and also additional interest upto two *per cent* per month for the period of default exceeding three months.

5.3.1.1 Transport co-operative societies

Under the scheme of privatisation of passenger road transport, the permit holder buses on link routes of the State are required to pay lump sum passengers tax, based on the seating capacity of the bus on monthly rate of ₹ 12,000 for 52/54 seater and ₹ 6,000 for 30/32 seater buses and in case their routes extended upto 24 kilometers at the rate of ₹ 16,000 for 52/54 seater and ₹ 10,000 for 30/32 seater buses with effect from March 2007.

During test check of the records of nine¹⁰ offices of Deputy Excise and Taxation Commissioner (Passengers and Goods Tax) {DETC (PGT)} between September 2009 and November 2010, we noticed that 59 transport co-operative societies¹¹ either did not deposit the monthly passengers tax or deposited it short during the period April 2008 and March 2010. There was nothing on record to show that the Department has raised the demand to realise tax from the defaulting societies. This resulted in non/short realisation of

tax of ₹ 70.30 lakh, besides interest of ₹ 54.70 lakh¹² was also leviable.

After we pointed out the cases between September 2009 and November 2010, six¹³ DETCs stated between November 2010 and May 2011 that a sum of ₹ 9.32 lakh had been recovered in 11 cases between March 2010 and May 2011 and efforts were being made to recover the balance amount of ₹ 34.40 lakh. DETC Hisar stated in October 2010 that notices had been issued to recover the dues of ₹ 15.36 lakh from the defaulting vehicle owners. DETCs Ambala Cantonment and Fatehabad stated in December 2010 and January 2011 that efforts were being made to recover the dues of ₹ 11.14 lakh. We have not received report on action taken to levy interest and the recovery of balance amount (October 2011).

¹⁰ Ambala Cantonment, Bhiwani, Faridabad (East), Fatehabad, Gurgaon, Hisar, Jhajjar, Jind and Sirsa.

¹¹ As per Haryana Co-operative Societies Act, 1984, a transport co-operative society means a society registered under the Act for plying buses on link routes in the State and granted permit under Section 7 of the Motor Vehicle Act, 1988.

¹² Interest calculated upto December 2010.

¹³ Bhiwani, Faridabad (East), Gurgaon, Jhajjar, Jind and Sirsa.

5.3.1.2 City bus operators

Section 9 (2E) of the PPGT (Haryana Amendment) Rules, 2004, as inserted with effect from 24 February 2004, provides that the holders of permit for plying buses on the roads within the municipal corporation limit in Gurgaon and Faridabad districts are required to pay passengers tax at the rates prescribed for ordinary half body¹⁴ and ordinary full body¹⁵ buses at ₹ 4,200 and ₹ 7,000 per month respectively.

During test check of the records of the offices of DETC (PGT), Faridabad (East), Faridabad (West) and Gurgaon in April and May 2010, we noticed that 28 private bus operators who were granted permits for plying buses in city areas did not deposit the monthly passengers tax for different periods between April 2009 and March 2010. There was nothing on records to show that the Department had taken any action to recover the tax from the defaulting bus owners, or to cancel the permits. This resulted in non/short realisation of tax of ₹ 13.06 lakh. Additionally, interest amounting to ₹ 7.80 lakh was also leviable for the period between April 2009 and December 2010.

After we pointed out the cases in April and May 2010, DETC (PGT), Gurgaon stated in January 2011 that a sum of ₹ 29,400 had been recovered in one case between June and October 2010 and efforts were being made to recover the balance amount of ₹ 1.52 lakh. DETC (PGT), Faridabad (West) stated in April 2010 that notices would be issued to recover the dues of ₹ 3.82 lakh from the defaulting vehicle owners. DETC (PGT), Faridabad (East) stated in July 2011 that notices had been issued to the defaulting vehicle owners for recovery of passengers tax of ₹ 7.43 lakh. We have not received reply regarding action taken to levy interest and recovery of balance amount (October 2011).

We pointed out the matter to the Excise and Taxation Commissioner, Excise and Taxation Department between November 2009 and December 2010 and reported to the Government in February 2011; we are yet to receive their reply (October 2011).

¹⁴ Half-body bus means an omnibus, which is not a maxi cab, and not a full-body bus.

¹⁵ Full-body bus means an omnibus whose capacity shall be, with ordinary 3x2 seating arrangement, to carry more than 35 but not more than 54 persons, and with luxury 2x2 seating arrangement to carry more than 12 but not more than 35 persons.

TRANSPORT DEPARTMENT

5.4 Non-observance of the provisions of Acts/Rules

The Punjab Motor Vehicles Act, 1924 (PMVT Act)/Haryana Motor Vehicle Rules, 1993 provides for:-

- (i) *payment of motor vehicles tax/token tax/permit fee by the owners of vehicles at the prescribed rate; and*
- (ii) *token tax to be paid in advance and within the prescribed period.*

We noticed that the Transport Department did not observe the provisions of the Acts/Rules in the cases for levy and collection of token tax and permit fee as mentioned in the paragraph 5.4.1. This resulted in non/short realisation of tax/permit fee of ₹ 35.37 lakh.

5.4.1 Non/short recovery of token tax

Under the PMVT Act and the rules framed thereunder, as applicable to the State of Haryana, yearly token tax shall be leviable in advance on every motor vehicle¹⁶ in equal instalments for quarterly periods commencing on the first day of April, July, October and January per vehicle. Any broken period in such quarterly periods shall, for the purpose of levying the tax, be considered as a full quarter. Further, Section 9 of the Act provides that in case of omission to comply with the provisions, the licensing officer may impose a penalty which may extend to twice the amount of tax due. When a person neglects or refuses to pay instalment of tax within one month from the expiry of the period fixed for such payment, the licensing officer may forward to the Collector a certificate specifying the amount of tax due recoverable as arrears of land revenue.

5.4.1.1 Stage carriage bus owners

Under Section 3 (1) of the PMVT Act, token tax on a stage carriage bus plying for hire and use for the transport of passengers shall be leviable at the rate of ₹ 550 per seat per annum subject to a maximum of ₹ 35,000 per vehicle per annum.

During test check of the records of 10 offices¹⁷ of the Secretary, RTA between October 2009 and August 2010, we noticed that in 122 buses of the co-operative transport societies plying as stage carriages during the period April 2008 to March 2010, token tax was either not deposited or deposited short by

the societies. The Department had not issued any demand notices to recover the tax or taken any other action against the defaulters. This resulted in

¹⁶ Motor vehicle means stage carriage and contract carriage permit holder vehicles.

¹⁷ Bhiwani, Fatehabad, Gurgaon, Hisar, Jhajjar, Kaithal, Rewari, Rohtak, Sirsa and Sonapat.

non/short realisation of token tax of ₹ 22.75 lakh. Additionally, maximum penalty of ₹ 45.50 lakh was also leviable.

After we pointed out the cases between October 2009 and August 2010, all the RTAs stated between November 2010 and October 2011 that ₹ 5.52 lakh had been recovered in 42 cases between December 2009 and March 2011 and efforts were being made to recover the balance amount of ₹ 17.23 lakh. We have not received any report on recovery of balance amount and action taken to levy penalty (October 2011).

5.4.1.2 City bus owners

As per notification issued in March 2004 under Section 3 (1) of the PMVT Act, a stage carriage or contract carriage plying under a permit issued under Faridabad and Gurgaon city 'Private Bus Service Scheme, 2004' is required to pay token tax prescribed for a half body bus and for a full body bus at the rate of ₹ 18,000 and ₹ 30,000 per annum respectively.

During test check of the records of the offices of Secretary, RTA, Faridabad and Gurgaon in April 2010, we noticed that 75 private bus operators who were granted permits for plying buses in city areas did not deposit token tax for different periods between April 2009 and March 2010. The Department had not issued any demand notices or taken any other action against the defaulting bus owners to recover token tax. This resulted in non/short realisation of token tax of ₹ 12.62 lakh. Additionally, maximum penalty of ₹ 25.24 lakh was also leviable.

After we pointed out the cases in April 2010, the Secretary, RTAs Faridabad and Gurgaon stated in December 2010 and January 2011 that a sum of ₹ 81,000 had been recovered in seven cases between April and December 2010 and efforts were being made to recover the balance amount of ₹ 11.81 lakh. We have not received any report on recovery of balance amount and action taken to levy penalty (October 2011).

We pointed out the matter to the STC, Transport Department between December 2009 and October 2010 and reported to the Government in February and March 2011; we are yet to receive their reply (October 2011).

CHAPTER-VI: OTHER TAX AND NON-TAX RECEIPTS

6.1.1 Results of audit

Test check of the records in Departmental offices relating to Excise and Taxation Department (Entertainment duty and show tax), Power (Taxes and duties on electricity), Urban Development, Mines and Geology, Industries, Co-operation and Land Revenue conducted in audit during the year 2010-11, revealed underassessments of tax and loss of revenue amounting to ₹ 40.57 crore in 456 cases which fall under the following categories:

(₹ in crore)

Sr. No.	Category	Number of cases	Amount
A: Excise and Taxation Department (Entertainment duty and show tax)			
1.	Non-recovery of entertainment duty	13	0.02
B: Power Department (Taxes and duties on electricity)			
1.	Miscellaneous irregularities	2	0.11
C: Urban Development			
1.	Non-collection of external development charges and interest thereon	3	12.63
2.	Non/short recovery of license fee and conversion charges	5	0.78
3.	Miscellaneous irregularities	7	19.67
Total		15	33.08
D: Mines and Geology and Industries			
1.	Non-recovery of interest on late deposit of contract money	34	6.22
2.	Non-recovery of royalty and interest	150	0.46
3.	Miscellaneous irregularities	28	0.26
Total		212	6.94
E: Co-operation			
1.	Non/short recovery of dividend on share capital	33	0.33
2.	Non/short recovery of audit fees	16	0.05
Total		49	0.38
F: Land Revenue			
1.	Miscellaneous irregularities	165	0.04
Total		165	0.04
Grand Total		456	40.57

During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 42.14 crore involved in 374 cases of which 202 cases involving ₹ 34.14 crore had been pointed out during 2010-11 and the remaining in the earlier years. The Department recovered ₹ 8.06 crore in 189 cases during the year 2010-11, of which 17 cases involving ₹ 4.12 lakh related to the year 2010-11 and balance to the earlier years.

Further, at the instance of audit, the Director, Mines and Geology Department, recovered ₹ 43.35 lakh out of ₹ 58.48 lakh in 2011 which were pointed out by us as short recoveries on contracts in Ambala, Panchkula and Yamuna Nagar in 2009-10.

An illustrative case involving ₹ 11.79 lakh is mentioned in the following paragraph.

MINES AND GEOLOGY DEPARTMENT

6.2 Non-observance of the provisions of Acts/Rules

The Mines and Minerals (Development and Regulation) Act and Punjab Minor Mineral Concession Rules provide for:-

- (i) levy of royalty on mineral removed from leasehold land area and levy of interest on belated payment of royalty;*
- (ii) realisation of contract money; and*
- (iii) levy of interest at prescribed rate.*

We noticed that the Department did not observe the above mentioned provisions in the case mentioned in paragraph 6.2.1, which resulted in non-recovery of royalty and interest of ₹ 11.79 lakh.

6.2.1 Non-recovery of royalty and interest

Rule 24 of the Punjab Minor Mineral Concession Rules, 1964, as applicable to the State of Haryana, provides that brick kiln owners (BKO) shall pay annual amount of royalty at the prescribed rate in advance by 30th April of every year. State Government revised the rates of fixed royalty of various categories of BKOs from June 2005. In case of default, interest at the rate of 24 per cent per annum is chargeable for the period of default. BKOs register is maintained at each mining office for levy and collection of royalty. The permits of such BKOs, are required to be cancelled by the Department who do not pay royalty by giving one month's notice and any sum due from the permit holders on account of royalty and interest thereon is recoverable as arrears of land revenue. The Assistant Mining Engineers (AMEs)/Mining Officers (MOs) are responsible for monitoring recovery of outstanding dues.

During test check of records of the offices of AMEs/MOs Panipat and Rohtak between October 2009 to November 2010 for the years 2008-09 and 2009-10, we noticed that 55 BKOs were issued permits between April 2008 and April 2009 for the period of two years. The BKOs were required to pay royalty by 30 April for the respective year. Though a period ranging between 19 to 33 months had elapsed up to December 2010, yet royalty of ₹ 8.16 lakh was neither paid by the BKOs nor any action was taken by the

Department to recover the same. Lack of action on the part of the Department resulted in non-realisation of revenue of ₹ 11.79 lakh (including interest¹ amounting to ₹ 3.63 lakh).

After we pointed out these cases between October 2009 to November 2010, MO Rohtak stated in March 2011 that efforts were being made for recovery of royalty and AME Panipat stated in March 2011 that royalty amounting to

¹ Interest calculated upto December 2010.

₹ 2.24 lakh (including interest of ₹ 59,400) had been recovered in 11 cases. We have not received further progress report on recovery (October 2011).

We pointed out the matter to the Director, Mines and Geology Department between December 2009 to December 2010 and reported to the Government in May 2011; we are yet to receive their reply (October 2011).

Chandigarh
The

(ONKAR NATH)
Principal Accountant General (Audit) Haryana

Countersigned

New Delhi
The

(VINOD RAI)
Comptroller and Auditor General of India

Annexure-I

(Refer Paragraph No. 1.2.5)

Position of paragraphs which appeared in the Audit Reports and those pending discussion/replies not received as on 30th September 2011.

Name of tax		2005-06	2006-07	2007-08	2008-09	2009-10	Total
Taxes on Sales, Trade etc.	Paras appeared in the AR/pending discussion in the PAC	9	8	9	13	12	51
	Paras replies not received	0	0	0	0	12	12
Taxes on Motor Vehicles	Paras appeared in the AR/pending discussion in the PAC	3	4	8	2	2	19
	Paras replies not received	0	0	5	2	2	9
Stamp duty and Registration fee	Paras appeared in the AR/pending discussion in the PAC	0	3	5	5	1	14
	Paras replies not received	0	3	5	5	1	14
State Excise	Paras appeared in the AR/pending discussion in the PAC	1	2	2	4	2	11
	Paras replies not received	0	0	0	0	2	2
Others	Paras appeared in the AR/pending discussion in the PAC	2	4	7	4	4	21
	Paras replies not received	0	3	4	4	4	15
Total	Paras appeared in the AR/pending discussion in the PAC	15	21	31	28	21	116
	ATNs to Paras included in AR not received	0	6	14	11	21	52

Annexure-II
(Refer Paragraph No. 1.2.5)

Details of outstanding recommendations of Public Accounts Committee on which the Government is yet to take final decision.

Sr. No.	PAC Report No.	Total number of outstanding recommendations	Period of Audit Report
1.	19	1	1977-78
2.	22	5	1979-80
3.	23	5	1980-81
4.	25	4	1981-82
5.	26	3	1982-83
6.	28	2	1983-84
7.	29	8	1984-85
8.	32	5	1985-86
9.	34	12	1986-87
10.	36	7	1987-88
11.	38	13	1988-89
12.	40	26	1989-90
13.	42	31	1990-91, 1991-92
14.	44	41	1990-91, 1991-92
15.	46	9	1993-94
16.	48	10	1994-95
17.	50	41	1995-96
18.	52	31	1996-97
19.	54	43	1997-98
20.	58	64	1998-99, 1999-2000
21.	60	38	2000-01
22.	62	46	2001-02
23.	63	54	2002-03
24.	64	57	2003-04
25.	65	51	2004-05
Total		607	

Annexure-III
(Refer Paragraph No. 1.3.1)

Details of outstanding Inspection Reports as on 31 March 2011.

Year	Number of outstanding IRs	Para	Amount (₹ in crore)
Upto 2001-02	137	164	5.56
2002-03	42	49	1.33
2003-04	29	40	1.37
2004-05	48	88	1.58
2005-06	68	98	2.73
2006-07	96	170	9.02
2007-08	110	310	8.47
2008-09	115	270	5.61
2009-10	116	331	12.22
2010-11	93	301	12.36
Total	854	1,821	60.25

Annexure-IV

(Refer Paragraph No. 1.3.2.2)

Details of reviews and recommendations included in the Audit Reports for the year 2003-04 to 2009-10.

Year of Audit Report	Name of the Review	Details of recommendations made
2003-04	Levy and collection of stamp duty and registration fee	<p>With a view for realistic indenting of stamps by the treasury officers and important details like name of treasury/vendors number and issue date etc. should be recorded on the stamps sold by the treasuries; the Government may consider:</p> <ul style="list-style-type: none">➤ The procedure for assessing the requirements, indenting and supply of stamps needs to be streamlined;➤ The Government should evolve a mechanism to make district level comparison between stamp duty realized on registration of documents and revenue realised through sale of stamps in order to prevent/detect use of fake stamps;➤ The documents/registers required to be maintained by the vendors and their verification and submission to the concerned authorities should be well monitored and transactions cross verified at periodic intervals; and➤ A system needs to be developed to bring all the deeds that are to be registered compulsorily under the tax net.
2007-08	Grant of exemptions and remissions of stamp duty and registration fee	<p>With a view to curb incidence of evasion of stamp duty, the Government may consider:</p> <ul style="list-style-type: none">➤ Maintenance of a centralised database of the remissions/concessions in stamp duty and registration fee for effective monitoring and instituting deterrent penalties for their abuse;➤ Inserting an explicit provision under the IR Act to specify the power to remit or exempt the RF;➤ Declaring all offices, in which documents are presented, as public offices and laying down norms/targets for the inspection of various departments/corporations by the Registrars/Sub Registrars of the concerned districts ensuring the correctness of property classified for the purpose of levy of SD and prescribing a periodical return to be furnished by them to the Revenue Department on number and nature of documents presented and SD found deficient; and➤ Making the internal audit operational to ensure timely detection and correction of error in levy and collection of revenue and avoid recurrence of mistakes pointed out.

Year of Audit Report	Name of the Review	Details of recommendations made
2009-10	Levy and collection of stamp duty and registration fee	<p data-bbox="865 216 1471 275">With a view to curb incidence of evasion of SD and RF, the Government may consider:</p> <ul style="list-style-type: none"> <li data-bbox="865 285 1471 510">➤ Laying down norms/targets for the inspection of departments/corporations by the Registrars/SRs of the concerned districts to ensure the correctness of property classified for the purpose of levy of SD and RF and prescribing a periodical return to be furnished by them to the Revenue Department on the number and nature of documents presented and SD/RF found deficient; <li data-bbox="865 520 1471 659">➤ Introducing a system in the department to review the registers of pending cases and prompt disposal of all pending cases. The monitoring at the apex level may be done by prescribing periodical return. A time limit for finalisation of these cases may also be prescribed; <li data-bbox="865 669 1471 779">➤ Prescribing a return/report to be furnished by the Registrars and SRs/JSRs mentioning the prescribed register issued to/deposited by the stamp vendors and the quantum of inspection against the target fixed; <li data-bbox="865 789 1471 898">➤ Strengthening the internal audit to ensure timely detection and correction of errors in levy and collection of revenue and avoid recurrence of mistakes pointed out; and <li data-bbox="865 909 1471 989">➤ Prescribing a report/return to be furnished by the IGR and Registrar of the districts mentioning the quantum of inspections done against the target fixed.

Annexure-V
(Refer Paragraph No. 1.4)

Audit plan for the year 2010-11.

Sr. No.	Nature of receipts	Total no. of auditable units	A-Annual B-Biannual T-Triennial Q-Quadrille				No. of units planned during the year 2010-11				Total unit planned during the 2010-11
			A	B	T	Q	A	B	T	Q	
1.	0039-State Excise	36	20	16	-	-	20	8	-	-	28
2.	0030- Stamp duty and Registration fee	116	86	30	-	-	86	15	-	-	101
3.	0041-Taxes on vehicles	72	30	42	-	-	30	21	-	-	51
4.	0042-Passengers and Goods tax	22	22	-	-	-	22	-	-	-	22
5.	0853-Mines and minerals	16	10	6	-	-	10	3	-	-	13
6.	0217-Town & Country Planning	1	1	-	-	-	1	-	-	-	1
7.	0040-Sales Tax	61	33	-	-	28	33	-	-	-	33
8.	0043-Electricity duty	4	1	-	-	3	-	-	-	1	1
9.	0045-Entertainment	22	-	-	-	22	-	-	-	6	6
10.	0425-Cooperation	33	-	33	-	-	-	16	-	-	16
11.	0029- Land Revenue	115	-	-	-	115	-	-	-	29	29
12.	0039-Pharmacy	18	-	-	-	18	-	-	-	5	5
13.	0851-Industry	41	-	-	-	41	-	-	-	10	10
	Total	557	203	127	-	227	202	63	-	51	316

Annexure-VI
(Refer Paragraph No. 5.2.11.1)

(Statement showing details of receipts not deposited in treasury)

SL. No.	Registration Number	Amount	Receipt number	Date of receipt
1	HR12R 7700	10000	17072	07/04/2011
2	HR12R 2002	10000	16803	04/04/2011
3	HR12R 4004	10000	16894	05/04/2011
4	HR12R 7200	10000	16874	05/04/2011
5	HR12R 7007	10000	16793	04/04/2011
6	HR12R 6666	25000	192337	31/05/2011
7	HR12R 5200	10000	192111	26/05/2011
8	HR12R 5300	10000	192678	03/06/2011
9	HR12R 5100	10000	17605	19/04/2011
10	HR12R 5005	10000	17058	07/04/2011
11	HR12R 6363	10000	17404	15/04/2011
12	HR12R 6006	10000	19901	09/05/2011
13	HR12R 5500	10000	16708	01/04/2011
14	HR12R 4500	10000	16960	06/04/2011
15	HR12R 3600	10000	17675	20/04/2011
16	HR12R 9191	10000	19900	09/05/2011
17	HR12R 8055	10000	197093	08/08/2011
18	HR12R 2222	25000	17425	15/04/2011
19	HR12R 9990	10000	19050	27/04/2011
20	HR12R 2525	10000	17764	21/04/2011
21	HR12R 0222	25000	193417	17/06/2011
22	HR12R 8100	10000	192253	30/05/2011
23	HR12R 8400	10000	197096	08/08/2011
24	HR12R 2020	10000	17033	07/04/2011
25	HR12R 9999	25000	19452	02/05/2011
26	HR12R 3400	10000	191011	11/05/2011
27	HR12R 2728	10000	17389	15/04/2011
28	HR12R 5200	10000	192111	26/05/2011
29	HR12R 2700	10000	17550	18/04/2011
30	HR12R 3636	10000	17403	15/04/2011
31	HR12R 7100	10000	194449	30/06/2011
32	HR12R 5555	25000	192760	07/06/2011
33	HR12R 8800	10000	191850	24/05/2011
34	HR12R 9090	10000	192565	02/06/2011
35	HR12R 3000	10000	16706	01/04/2011
36	HR12R 7777	25000	16042	22/03/2011
37	HR12R 5500	41100	16709	01/04/2011
38	HR12R 1248	500	16065	22/03/2011
	Total	4,91,600		

Annexure-VII
(Refer Paragraph No. 5.2.11.1)

(Statement showing amount less deposited due to difference in totals)

Date	Fee collected	Tax collected	Actual Total	Total taken in Cash Book	Difference
16/03/2011	37860	420477	458337	458369	-32
17/03/2011	17650	305221	322871	322871	0
18/03/2011	20370	395489	415859	415859	0
21/03/2011	28370	343225	371595	371595	0
22/03/2011	9040	176352	185392	185392	0
24/03/2011	47650	475764	523414	519214	4200
25/03/2011	27360	202871	230231	225631	4600
28/03/2011	18000	269891	287891	286891	1000
29/03/2011	30790	318032	348822	347022	1800
30/03/2011	19670	251197	270867	264467	6400
31/03/2011	15860	209196	225056	221756	3300
01/04/2011	16800	350787	367587	364487	3100
02/04/2011	18420	293171	311591	309991	1600
05/04/2011	22770	338472	361242	357042	4200
06/04/2011	19300	320666	339966	334766	5200
07/04/2011	13910	220446	234356	232356	2000
08/04/2011	15810	217924	233734	213234	20500
11/04/2011	14790	172618	187408	186868	540
13/04/2011	17910	340424	358334	357334	1000
15/04/2011	22040	568236	590276	587776	2500
18/04/2011	20740	226905	247645	243945	3700
19/04/2011	11660	206216	217876	217376	500
20/04/2011	14680	213441	228121	226521	1600
21/04/2011	11680	161311	172991	171491	1500
22/04/2011	10170	199107	209277	208777	500
25/04/2011	11990	123440	135430	133930	1500
26/04/2011	16320	208173	224493	223493	1000
27/04/2011	19030	311882	330912	330912	0
28/04/2011	22030	340642	362672	362672	0
29/04/2011	21475	249605	271080	268080	3000
02/05/2011	21950	252551	274501	273501	1000
03/05/2011	22260	462466	484726	484226	500
04/05/2011	17890	320133	338023	337423	600
06/05/2011	21720	444968	466688	466188	500
09/05/2011	24014	407118	431132	428532	2600
10/05/2011	15610	237900	253510	251210	2300
11/05/2011	18180	337648	355828	354328	1500
12/05/2011	12860	189903	202763	202163	600
13/05/2011	14150	270133	284283	283283	1000
16/05/2011	15160	154439	169599	167799	1800

Date	Fee collected	Tax collected	Actual Total	Total taken in Cash Book	Difference
17/05/2011	15530	237653	253183	252683	500
18/05/2011	17270	270101	287371	286371	1000
19/05/2011	15610	168243	183853	182853	1000
20/05/2011	13970	130324	144294	143294	1000
23/05/2011	20290	333697	353987	352387	1600
24/05/2011	18800	291334	310134	310134	0
25/05/2011	19690	291368	311058	311058	0
26/05/2011	22370	316665	339035	339035	0
27/05/2011	11640	127857	139497	139497	0
30/05/2011	15690	193943	209633	209633	0
31/05/2011	45140	382966	428106	428106	0
01/06/2011	19550	327476	347026	347026	0
02/06/2011	24950	406996	431946	431946	0
03/06/2011	44750	201671	246421	246421	0
06/06/2011	10860	194689	205549	205549	0
07/06/2011	46640	143984	190624	190624	0
08/06/2011	16550	141413	157963	157963	0
09/06/2011	38200	341214	379414	379414	0
10/06/2011	10790	175737	186527	186527	0
13/06/2011	11480	233363	244843	244843	0
14/06/2011	20760	211758	232518	232518	0
16/06/2011	54240	320455	374695	374695	0
17/06/2011	118180	378352	496532	496032	500
20/06/2011	26810	409918	436728	436328	400
21/06/2011	14460	233317	247777	247277	500
22/06/2011	17380	271615	288995	298295	-9300
23/06/2011	25890	314928	340818	340818	0
24/06/2011	15950	140699	156649	156649	0
27/06/2011	17380	302816	320196	320196	0
28/06/2011	21490	319495	340985	340485	500
29/06/2011	20600	246513	267113	267113	0
30/06/2011	22510	372254	394764	394764	0
01/07/2011	29360	432264	461624	461624	0
04/07/2011	20280	348716	368996	368996	0
05/07/2011	9570	122197	131767	131767	0
06/07/2011	27630	211422	239052	239052	0
07/07/2011	38240	200906	239146	239296	-150
08/07/2011	13430	197807	211237	211237	0
09/07/2011	10290	80799	91089	91089	0
12/07/2011	18850	125015	143865	143865	0
13/07/2011	36950	362658	399608	399608	0
14/07/2011	22980	369526	392506	392506	0
15/07/2011	20760	667630	688390	688390	0
18/07/2011	41130	176421	217551	217551	0

Date	Fee collected	Tax collected	Actual Total	Total taken in Cash Book	Difference
19/07/2011	16220	185696	201916	201916	0
20/07/2011	27110	338354	365464	365464	0
21/07/2011	15230	225304	240534	240534	0
22/07/2011	17090	238449	255539	255539	0
25/07/2011	11380	125927	137307	137307	0
26/07/2011	28250	188316	216566	216566	0
27/07/2011	30450	449238	479688	476488	3200
28/07/2011	16320	138283	154603	154603	0
29/07/2011	17910	205054	222964	222964	0
01/08/2011	17190	195965	213155	213155	0
03/08/2011	25570	363563	389133	389133	0
04/08/2011	22490	279395	301885	301885	0
05/08/2011	20800	392423	413223	413223	0
08/08/2011	27930	679061	706991	706991	0
09/08/2011	26160	391606	417766	417266	500
10/08/2011	21780	309485	331265	331265	0
11/08/2011	51440	385585	437025	437025	0
12/08/2011	25250	255922	281172	281172	0
16/08/2011	13350	251481	264831	264831	0
17/08/2011	21080	228860	249940	249940	0
18/08/2011	49041	405321	454362	454362	0
19/08/2011	9510	318805	328315	328315	0
23/08/2011	17200	346924	364124	364124	0
24/08/2011	29530	587656	617186	617186	0
25/08/2011	18590	331651	350241	350241	0
26/08/2011	13120	272994	286114	286114	0
27/08/2011	79730	423367	503097	502497	600
30/08/2011	19690	264447	284137	284137	0
01/09/2011	29360	604341	633701	633701	0
02/09/2011	38270	415135	453405	453405	0
05/09/2011	12680	110015	122695	122695	0
06/09/2011	59230	553194	612424	612424	0
Total	27,11,780	3,36,98,432	3,64,10,212	3,63,20,754	89,458

Annexure-VIII
(Refer Paragraph No. 5.2.13.1 to 5.3.13.3)

**Statement showing details of inconsistencies
in data relating to chassis and Engine**

Name of office		Number of records analysed	Number of cases where Chassis number was duplicate	Number of cases where Engine number was duplicate	Number of cases where both Chassis number and Engine number were duplicate	Number of cases where Chassis number was tampered	Number of cases where complete Chassis number was not captured
Ambala	RA	62666	0	1670	0	100	15488
Naraingarh	RA	13741	0	36	0	68	374
Barara	RA	12845	0	193	0	10	4225
Kurukshetra	RA	66242	0	40	0	22	231
Karnal	RA	73367	0	66	0	152	63
Karnal	RTA	2526	0	8	0	8	5
Panipat	RA	118549	0	114	0	140	12
Panipat	RTA	3141	0	12	0	13	3
Sonepat	RA	4530	0	0	0	0	
Sonepat	RTA	3900	0	0	0	6	61
Gurgaon	RA	378558	32	2001	4	585	2233
Gurgaon	RTA	17796	0	254	0	342	32
Yamunanagar	RA	202140	92	680	12	140	4204
Faridabad	RA	361953	2	30488	0	70	47601
Faridabad	RTA	91151	6	1070	2	296	1080
Rewari	RA	62941	0	64	0	10	117
Rohtak	RA	24743	32	62	0	38	17
Jhajjar	RA	41984	2	100	0	6	166
Rewari	RTA	2713	0	42	0	37	0
Total		15,45,486	166	36,900	18	2,043	75,912

Annexure-IX
(Refer Paragraph No. 5.2.14.1 to 5.2.14.5)

Statement showing inconsistencies in Sarathi data

Name of the Unit	Total No of total DLs	Double Licence	Lapsed Validity	Within 30 days	DL Without LL	Below 18 years	Validity more than 6 months
RA Ambala	61329	36	7038	10405	2393	36	-
RA Naraingarh	12556	116	1454	2370	62	2	-
RA Barara	9451	34	1389	2593	258	2	-
RA Yamuna Nagar	55661	26	4010	197	400	2	9
RA Karnal	73638	64	7295	1678	483	28	-
RA Panipat	80286	112	12430	8331	74	49	-
RA Sonipat	26880	68	106	31	1	0	-
RA Gurgaon	95978	208	14968	1456	567	520	-
RA Faridabad	242354	24	2069	682	64	7	1
RA Rewari	45428	58	3168	4865	285	9	-
RA Jhajjar	29539	22	4277	1095	4287	28	-
RA Rohtak	23311	55	1874	72	296	1	-
RA Kurukshetra	40093	66	6250	1156	710	6	
Total	7,96,504	889	66,328	34,931	9,880	690	10