

## OVERVIEW

This Report contains ten paragraphs including three Performance Audits on “**Cross Verification of Declaration Forms in Inter State Trade or Commerce**”, “**Computerisation in Motor Vehicles Department**” and “**Assessment and Levy of Stamp Duty and Registration Fee**” involving revenue implications of ₹ 39.90 crore, relating to system and compliance deficiencies leading to non/short levy of tax, interest, penalty etc.

Some of the significant audit findings are mentioned below:

### I. General

The overall receipts of the State stood at ₹ 22233.65 crore at the end of 31 March 2011 as against previous years’ receipts of ₹ 17587.82 crore indicating an increase of 26 *per cent*. The State’s own revenue (₹ 4575.69 crore) was 21 *per cent* of the total revenue receipts against 23 *per cent* in the preceding year. The balance 79 *per cent* were met from the funds received from Government of India (GOI) of which 82.63 *per cent* came in the form of Grant-in-aid. The Grant-in-aid from GOI constituted 65.62 *per cent* of the State’s total revenue receipts.

(Paragraph No 1.1.1)

Inspection reports issued upto June 2010 disclosed that 2053 paragraphs involving ₹ 1726.88 crore relating to 599 IRs remained outstanding at the end of June 2011. The large pendency of the IRs was due to non-receipt of replies which indicated failure of the Heads of Offices and Heads of the Departments to initiate action to rectify the defects, omissions and irregularities pointed out by us.

(Paragraph No 1.3.1)

### 2. Commercial Taxes Department

The VAT revenue increased from ₹ 1159.72 crore in 2006-07 to ₹ 2424.52 crore in 2010-11, an increase of 109 *per cent* over the period.

(Paragraph No 2.2)

The arrears of revenue, as on 31 March 2011, in respect of the VAT / Sales Tax as reported by the Department was ₹ 1426.38 crore of which ₹ 351.59 crore (25 *per cent*) were outstanding for more than five years.

(Paragraph No 2.7)

During the course of audit, the Department accepted underassessment and other deficiencies of ₹ 1.13 crore involved in 11 cases pointed out in 2010-11 and earlier years.

(Paragraph No 2.12)

## **Performance Audit on “Cross Verification of Declaration Forms in Inter-State Trade or Commerce”**

The Deputy Commissioner Sales Tax Jammu had got printed 1.40 lakh forms, of which, 30000 H forms had not been lifted at all by the Department as of March 2011 even after a lapse of more than 19 years. The printing of Declaration forms was not done on a realistic basis since the Declaration forms were printed far in excess of requirement. Their prolonged storage may cause damage to the forms.

### **(Paragraph No 2.14.9.2)**

We found that computerised database of registered dealers in the State carrying out Inter-State sales had not been created by the Department, in absence of which, the uploading for cross verification of the data of Declaration forms relating to the dealers on the website was not possible. Thus Commissioner Commercial Taxes Department did not take advantage of TINXSYS website for cross verification purposes.

### **(Paragraph No 2.14.10)**

The Department had not maintained any database of the dealers conducting Inter-State sale/stock transfer, and hence, it was not in a position to identify the dealers who had made Inter-State sales or ascertain total concession and exemption granted to the dealers during a year. In absence of such a database, the Government could not analyse the cost-benefit trade-off properly and also could not monitor submission of Declaration forms of those dealers who had claimed exemption/concessions.

### **(Paragraph No 2.14.11)**

We noticed that exemption of tax had been allowed in 36 cases where Declaration forms were issued by the purchasers of other States between March 1985 and May 2003. The genuineness of Declaration forms had not been ascertained by the AAs though these forms were very old, having been issued decades ago.

### **(Paragraph No 2.14.12)**

We found on cross verification short disclosure of purchases of ₹ 2.33 crore by 22 dealers. Besides, variations were found in the names of selling dealers in Inter-State transactions valued at ₹ 7.70 crore.

### **(Paragraphs No 2.14.14.1 and 2.14.14.2)**

The Department did not notify loss of ‘C’ forms by a dealer resulting in misuse of one form and also did not ensure surrender of 150 Declaration forms issued to a dealer whose registration was cancelled. There was misuse of two such cancelled ‘C’ forms involving loss of revenue of ₹ 49.05 lakh.

### **(Paragraphs No 2.14.14.4 and 2.14.14.5)**

Our cross verification of sales made by the registered dealers of the State with the dealers registered in other States revealed understatement of Inter-State sales of ₹ 67 lakh in seven cases and overstatement of sales by ₹ 4.59 crore in 12 cases. Further, dealers had actually purchased goods other than those on which exemption was claimed.

We found on cross verification that 65 'C' Declaration forms, on the basis of which exemption was granted to the dealers registered in the State were not issued to the dealers by the respective Commercial Taxes Departments of other States. Thus the exemption granted on fake forms required investigation for recovery of tax and penalty.

We found that the names mentioned in 'C' Forms on the basis of which exemption was granted to the selling dealers did not tally with the names shown by the purchasing dealers in their records. Tax involved in these fake forms was ₹ 1.27 crore which required investigation for recovery of the tax and interest/ penalty.

**(Paragraph No 2.14.15.1 to 2.14.15.4, 2.14.15.6)**

We found that exemption from payment of tax was allowed to two dealers, though they had not produced 'F' forms in support of their stock transfer of goods valued at ₹ 2.25 crore during 2005-07. This had resulted in incorrect grant of exemption having tax effect of ₹ 44.16 lakh, including interest.

**(Paragraph No 2.14.16.2)**

Exemptions/concessions were given to 74 dealers irregularly on Duplicate copies/photocopies/counterfoils and incomplete/blank Declaration forms.

**(Paragraphs No 2.14.16.3, 2.14.16.4 and 2.14.16.5)**

## Compliance Audit

We found that in Commercial Tax Circle Jammu 'O' that the Assessing Authority while assessing a dealer registered as contractor had applied a tax rate of 4.2 *per cent* instead of 12.6 *per cent* resulting in short levy of tax of ₹ 22.83 lakh.

**(Paragraph No. 2.15.1)**

We found that in CTO Circle Srinagar 'O' the Assessing Authority (AA) while finalising assessment of the dealer, exempted the Inter-State stock transfer of ₹1.20 crore during the year 2002-03 to 2004-05 even though the prescribed Declaration certificate in form 'F' had not been furnished by the assessee. This had resulted in short levy of tax and interest amounting to ₹ 27.60 lakh.

**(Paragraph No. 2.15.2)**

We found that in Commercial Taxes Officer Circle Jammu 'N' the Assessing Authority had failed to detect actual stock transfer by a dealer and after re-assessment, short accounting of stock valuing ₹ 12.27 lakh was detected leading to an additional demand of ₹ 7.86 lakh.

**(Paragraph No. 2.15.3)**

We found in three Commercial Tax Circles in Jammu that Assessing Authorities had failed to detect understatement of turnover of ₹ 20.05 lakh involving tax of ₹ 9.13 lakh.

**(Paragraphs No. 2.15.5)**

### **3. Taxes on Vehicles**

#### **Performance Audit on “Computerisations in Motor Vehicles Department”**

We found that implementation of VAHAN and SARATHI of the RTOs/ARTOs was taken up by the Department in 2005; however the system was implemented only in eight districts out of 22 RTOs/ ARTOs. The delay in implementation of the system in these eight districts ranged from six months to 49 months.

**(Paragraphs No.3.5.7.1 and 3.5.7.2)**

We found partial utilisation of VAHAN. The modules i.e. Issue of permits, Enforcement, Trade Certificate were present in the software but these were not put to use. We found that these modules were not got customised by the Department from NIC.

**(Paragraph No. 3.5.7.3)**

We noticed that the Department was not aware of any system design and user requirement for operating the two application systems and as such the Department had to depend on the NIC for updating of the system and its operation.

**(Paragraph No.3.5.7.5)**

We found, that out of the eight computerised RTOs, legacy data (i.e. data that existed prior to implementation of VAHAN) had been digitised and incorporated in the software of only one RTO, Kathua. We further noticed that the data so digitised and incorporated, was incomplete viz details of Purchase Date, Father Name, Laden Weight, Registration Date, Fitness Fee validation period had not been captured.

**(Paragraph No. 3.5.7.6)**

We found that consolidated inventory of the hardware procured by the Department before and after implementation of VAHAN and SARATHI and its distribution to various RTOs/ARTOs, had neither been maintained at the Commissioner level nor in the RTOs/ARTOs offices. Further, no physical verification had been carried out as verified in the seven RTOs/ ARTOs test-checked.

**(Paragraph No. 3.5.7.7)**

We observed that all the eight computerised RTOs/ ARTOs were not linked to the common database even after a lapse of six years from the start of the project in 2005 and consequently, objective of automatic flow of data into the State and National Registers could not be achieved.

**(Paragraph No. 3.5.7.8)**

Our analysis of the data base of VAHAN revealed that there were 3,032 cases of duplicate engine numbers, 17 cases of duplicate chassis numbers and 53 cases of blank Engine numbers in seven test-checked RTO/ARTOs, thereby rendering the data unreliable.

**(Paragraph No. 3.5.8.2)**

Buses registered in the name of the Educational institutions are allotted Code '8' in master table of VAHAN. However, we found that 636 buses registered in the name of the Educational institutions were allotted Code numbers other than the code '8'.

**(Paragraph No. 3.5.8.4)**

We observed that there was no anti-virus software loaded in any of the servers. The servers were found virus-infected, leaving the data risk-prone. The Department had not executed any contract for maintenance of hardware viz. computers, UPS, servers, and printers etc. to safeguard against breakdowns.

**(Paragraph No. 3.5.9.1)**

Our analysis of the database of RTO, Jammu revealed that in respect of 526 registered vehicles, the user name of the data entry operator was not available in the "dbo\_Owner" table of database, the main database of "VAHAN" software, thereby exposing the database to risk of unauthorised access.

**(Paragraph No. 3.5.9.4)**

We found that the Department had not nominated any staff for training. Therefore, the Department had to remain dependent on NIC for day-to-day management of software etc. For user's access to the system through user IDs and password, no documented password policy was in place in any of the RTOs/ARTOs.

**(Paragraph No. 3.5.9.5)**

We saw that 13,369 goods and passenger vehicles had defaulted on payment of token tax of ₹ 12.36 crore and the Department had not utilised the VAHAN Software for generating list of defaults for taking recovery action.

**(Paragraph No. 3.5.9.6)**

Our analysis of the SARTHI database of four out of seven test-checked RTOs/ ARTOs, revealed that two separate driving licenses had been issued to the same person in 298 cases and four licensees had been issued to a single person by one RTO indicating deficient input controls and validation checks in the software. The database was incomplete with large number of relevant entries/records relating to driving licenses being kept blank.

**(Paragraphs No. 3.5.10.2 and 3.5.10.3)**

Our test-check of database (Owner Table and Tax Table) of two RTOs revealed that fitness certificates in respect of 63 school buses had not been renewed even after a lapse of six days to three years. The Department had made no efforts to trace out the vehicles to ensure safety of children.

**(Paragraph No. 3.5.12)**

## **4. Stamp Duty and Registration Fees**

### **Performance Audit on “Assessment and Levy of Stamp Duty and Registration Fee”**

Our scrutiny revealed that the Department had neither prepared any Departmental Manual for Registrations of Instruments nor any compendium of instructions/amendments/clarifications issued by Government from time to time. Administrative inspection of the Sub Registrars/*Munsiffs* was never conducted by the Principal and District Session Judges who are the Administrative heads of the Registering offices.

#### **(Paragraphs 5.5.10.1 and 5.5.10.2)**

We noticed one instance of embezzlement due to weak internal controls in the office of the Sub-Judge (Sub Registrar), Jammu where the registration fee of ₹ 0.20 lakh collected by a cashier (*Nazir*) in May/June 2007 had not been remitted into Treasury.

#### **(Paragraph 5.5.10.3.1)**

As required under Registration Act, no certificate on registers pertaining to various Deeds was recorded and intimated to Controlling Authority by the Registering Authorities. There was no mechanism in the Department to keep watch over the number of Deeds executed by a Registering Authority at District, Division & State Level.

#### **(Paragraph 5.5.10.4)**

We found that the relevant records of the Department had not been computerised for an efficient and effective administration of Stamp Duty and Registration Fee including an effective control over the leakage of revenue.

#### **(Paragraph 5.5.10.5)**

We found that the entries regarding the value of stamps used with the number of stamps and denomination had not been made in the prescribed records.

#### **(Paragraph 5.5.10.6)**

We found in nine Sub-registrars that the Registering Authorities had charged Stamp Duty on instruments relating to lease deeds of over three years, executed between April 2007 and June 2010, at lower rates applicable under conveyance No.14, applicable to the lease of less than three years, than prescribed under conveyance No. 20, resulting in short-levy of ₹ 62.72 lakh involving 134 cases.

#### **(Paragraph 5.5.11)**

We found in 22 instruments of Sales of immovable properties that these were treated as cases of sale agreements and consequently attracted lesser rates than those prescribed under conveyance No. 20, resulting in short levy of Stamp Duty and Registration Fees of ₹ 10.86 lakh.

**(Paragraph No. 5.5.11.1)**

We found that 17 Registering authorities had not charged Stamp Duty and Registration Fee in 971 cases at the revised market rates on instruments of sale/gift deeds registered during the period from January to March 2011, resulting in short levy of Stamp Duty of ₹ 4.60 crore and Registration Fee of ₹ 70.71 lakh

**(Paragraph No. 5.5.11.2)**

We found that rates of Stamp Duty and Registration Fee applicable to urban areas since 2003, notifications issued by the Urban Development Department had not been applied while registering Instruments relating to properties situated in the areas within the Municipal limits, resulting in non-recovery of ₹ 2.73 crore .

**(Paragraph No.5.5.12)**