

CHAPTER III
REVENUE SECTOR

3.1 Trend of revenue receipts

3.1.1 The Tax and Non-tax revenue raised by Government of Manipur during the year 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-Aid received from Government of India during the year and the corresponding figures for the preceding four years are mentioned in the following table.

Table No. 3.1.1 Trends of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Revenue raised by the State Government					
	• Tax revenue	368.07	332.83	472.73	516.83	550.44
	• Non-tax revenue	311.53	231.78	260.67	183.73	149.48
	Total	679.60	564.61	733.40	700.56	699.92
2	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes and duties	1,154.03	1,317.83	1,438.79 ⁵⁶	1,526.89 ⁵⁶	3,142.42
	• Grants-in-aid	3,819.92	4,937.32	5,110.60	5,770.82	4,437.76
	Total	4,973.95	6,255.15	6,549.39	7,297.71	7,580.18
3	Total receipts of State Government (1 & 2)	5,653.55	6,819.76	7,282.79	7,998.27	8,280.10
	Percentage of 1 to 3	12	8	10	9	8

Source: Finance Accounts

The above table indicates that during the year 2015-16, the revenue raised by the State Government (₹ 699.92 crore) was eight *per cent* of the total revenue receipts of ₹ 8,280.10 crore as against nine *per cent* in the preceding year (₹ 700.56 crore). The balance 92 *per cent* of receipts of ₹ 7,580.18 crore during 2015-16 was from Government of India.

3.1.2 The details of Budget and actuals realisation of Tax revenue raised during the period 2011-12 to 2015-16 are given in the following table.

⁵⁶ Includes only the amount booked under the Minor Head 901 - share of net proceeds assigned to the State, booked under the Major Heads 0020 - Corporation tax, 0021-Taxes on income other than corporation tax, 0032 - Taxes on wealth, 0037 - Customs, 0038- Union excise duty, 0044 - Service tax.

Table No. 3.1.2 Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Taxes on sales, trade etc.	242.20	296.92	250.80	258.52	385.88	395.74	500.00	433.33	570.00	466.51	(+) 7.66
2	Motor Vehicles Tax	15.65	13.21	17.17	15.83	19.57	18.73	22.31	20.77	25.43	23.29	(+) 12.13
3	State Excise	12.11	9.80	8.59	9.93	12.74	9.20	14.52	9.32	11.96	8.78	(-) 5.79
4	Stamps and Registration Fees	15.52	4.82	6.64	5.99	6.26	7.90	7.14	7.76	10.27	10.45	(+) 34.66
5	Land Revenue	1.05	0.84	1.68	1.24	1.09	1.12	1.24	1.42	1.45	2.59	(+) 82.39
6	Taxes on duties on electricity	0.01	0.34	-	0.04	0.44	0.05	0.50	-	0.06	0.00 [@]	
7	Others	31.30	42.14	47.95	41.28	65.89	39.99	75.12	44.25	51.98	38.82	(-) 12.27
	Total	317.84	368.07	325.51	332.83	491.87	472.73	620.83	516.85	671.15	550.44	(+) 6.50

Source: Finance Accounts and Annual Financial Statement

[@] ₹ 35,000 only

The Departments despite being requested (August and October 2016) did not furnish the reasons for variation in receipts from that of the previous year (January 2017).

3.1.3 The details of Budget estimates and actual realisation of Non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in the following table.

Table No. 3.1.3 Details of Non-tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase(+)/ decrease (-) in 2015-16 over 2014-15
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Miscellaneous General Services	99.38	138.33	93.01	75.29	167.38	110.83	184.12	132.48	129.27	106.09	(-) 19.92
2	Interest receipts	41.04	25.18	54.03	20.66	30.47	33.10	33.52	30.60	38.61	27.43	(-) 10.36
3	Forestry and Wild Life	7.73	3.46	2.54	2.94	4.18	3.71	4.18	4.62	4.33	3.65	(-) 21.00
4	Major and Medium Irrigation	12.47	8.61	12.69	3.75	10.42	2.42	11.46	2.04	12.38	0.64	(-) 68.63
5	Public Works	21.36	15.13	20.43	6.01	18.31	1.81	20.14	2.90	2.11	1.26	(-) 56.55
6	Other Administrative Services	0.45	2.89	1.30	1.39	3.49	1.18	3.84	1.01	1.38	0.99	(-) 1.98
7	Police	1.14	0.90	1.07	0.99	1.08	1.03	1.19	0.79	1.20	0.72	(-) 8.86
8	Medical and Public Health	0.14	0.10	0.15	0.15	0.12	0.29	0.13	0.34	0.33	0.25	(-) 26.47
9	Co-operation	0.20	0.26	0.22	0.33	0.31	0.22	0.34	0.49	0.26	0.37	(-) 24.49
10	Other non-tax receipts	275.81	116.67	200.40	120.27	194.01	106.08	25.14	8.46	29.55	8.06	(-) 4.73
	Total	459.72	311.53	385.84	231.78	429.77	260.67	284.06	183.73	219.42	149.48	(-) 18.70

Source: Finance Accounts and Annual Financial Statement

Public Works Department stated that the decrease of revenue during 2015-16 was due to less realization.

The other Departments despite being requested (August and October 2016) did not furnish the reasons for variation in receipts from that of the previous year (January 2017).

3.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 on four principal heads of revenue amounted to ₹ 1,459.08 lakh, of which ₹ 11.89 lakh was outstanding for more than five years, as detailed in the following table. The arrears of revenue in respect of other heads of revenue (*viz.* Taxes on Land Revenue, State Excise, Stamp and Registration Fees, etc.) were not furnished.

Table No. 3.2.1 Arrears of revenue

(₹ in lakh)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016	Replies of Department
1	Other Taxes on Income and Expenditure	9.84	6.64	Not furnished.
2	Taxes on Sales/VAT	1,438.79	-	Not furnished.
3	Taxes on Vehicles	8.27	4.15	Not furnished.
4	Taxes on Passenger and Goods	2.18	1.10	Not furnished.
Total		1,459.08	11.89	

Source: Departmental records

3.3 Arrears in assessments

The details of Sales Tax/VAT, Taxes on Works Contract assessment cases pending at the beginning of the year 2015-16, cases which became due for assessment during the year, cases disposed during the year and number of cases pending at the end of the year 2015-16 as furnished by the Commissioner of Taxes are mentioned in the following table.

Table No. 3.3.1 Arrears in assessments

Name of Tax	Opening balance as on 1 st April 2015	New cases due to assessment during 2015-16	Total assessment due	Cases disposed of during 2015-16	Balance at the end of the year 2015-16	Percentage of disposal (Col. 5 to 4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Sales Tax/VAT	12	8	20	2	18	10.00
Taxes on Works contract	152	51	203	143	60	70.44
Total	164	59	223	145	78	65.02

Source: Departmental records

Thus, it can be observed that the number of cases disposed (145 cases) was higher than the number of new cases (59 cases) arising during the year 2015-16 by 86 cases. There were 78 cases pending at the end of the year.

3.4 Evasion of tax detected by Department

The details of cases of evasion of tax during the year 2015-16 detected by the Taxation Department, cases finalized and the demands for additional tax raised as reported by the Department are given in the following table.

Table No. 3.4.1 Evasion of tax

Sl. No.	Head of revenue	Cases pending as on 31 st March 2015	Cases detected during 2015-16	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc. raised during the year 2015-16.		No. of cases pending for finalization as on 31 st March 2016
					No. of cases	Amount of demand (₹ in lakh)	
1	Taxes of vehicles	NIL	1,078	1,078	1,078	2.83	NIL
2	Taxes on Goods and passengers						
Total			1,078	1,078	1,078	2.83	NIL

Source: Departmental records

As seen from the above table, 1,078 cases of evasion on Taxes of vehicles and Taxes on Goods and passengers were detected during 2015-16. In respect of other heads of revenue (viz. Taxes on Land Revenue, State Excise, Stamp and Registration Fees, etc.), details (if any) could not be furnished by the Departments concerned.

3.5 Pendency of Refund Cases

No information in respect of pendency of refund cases was furnished by Taxation Department though called for (August 2016) and subsequent reminder (October 2016).

3.6 Response of the Departments/Government towards Audit

The Accountant General (Audit), Manipur {AG (Audit)} conducts periodical audit of the Government Departments to test check the transactions and verify the maintenance of 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/ Governments are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG (Audit) within one month from the date of issue of IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection Reports issued up to December 2015 disclosed that 770 paragraphs involving ₹ 143.90 crore relating to 255 IRs remained outstanding at the end of June 2016 as mentioned in the following table along with the corresponding figures for the preceding two years.

Table No. 3.6.1 Details of pending Inspection Reports

	June 2014	June 2015	June 2016
Number of pending IRs	235	256	255
Number of outstanding audit observations	641	755	770
Amount involved (₹ in crore)	74.24	97.39	143.90

Source: Records of the Accountant General (Audit), Manipur

3.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in the following table.

Table No. 3.6.2 Department wise details of IRs

(₹ in crore)

Sl. No.	Name of Department	Nature of receipts	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1	Finance	Taxes on sales, trade etc.	54	197	68.66
		Passenger & Goods Tax (PGT)	Nil	Nil	Nil
		Other Taxes & Duties on commodities and services (OTD)	Nil	Nil	Nil
		Entertainment & luxury tax etc.	Nil	Nil	Nil
2	Excise	State Excise	11	36	5.78
3	Revenue	Land revenue	107	286	28.35
4	Transport	Taxes on Motor Vehicles	70	203	40.58
5	Stamp and Registration	Stamp & Registration Fees	13	48	0.53
Total			255	770	143.90

Source: Records of the Accountant General (Audit), Manipur

For six IRs issued during 2015-16, Audit did not even receive first replies from the head of the offices within one month from the date of issue of the IRs. This large pendency of 255 IRs due to non-receipt of the replies is indicative of the fact that the head of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG (Audit) in the IRs.

The Government may consider having an effective system for providing prompt and appropriate response to audit observations.

3.6.2 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2015-16 one Departmental Audit Committee meeting was held in which 42 paragraphs in respect of Revenue Department involving money value of ₹ 1.44 crore were settled.

3.6.3 Record not produced to audit for scrutiny

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

During the year 2015-16, as many as four cases were noticed where records such as stock register, receipt books, bills, vouchers were not made available to audit. Tax amount involved on the records not produced could not be ascertained. Break up of these cases are given in the following table.

Table No. 3.6.3 Details of non-production of records

Name of the office/Department	Year in which it was to be audited	Number of cases not audited	Tax amount
Revenue	2015-16	4	Not Available

Source: Records of the Accountant General (Audit), Manipur

3.6.4 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG (Audit) to the Principal Secretary/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Of the five paragraphs included in the Report reply of one draft paragraph has not been received (January 2017).

3.6.5 Follow up on Audit Reports

The internal working system of the Public Accounts Committee (PAC), notified in December 2002 laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall *suo moto* initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on Audit Paragraphs of the Reports were being delayed inordinately. 52 paragraphs (including four performance audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Manipur for the years ended 31 March 2008, 2009, 2010, 2011, 2012, 2013, 2014 and 2015 were placed before the State Legislature Assembly between 19 March 2009 and 2 September 2016. Action taken on explanatory notes in respect of 30 paragraphs/reviews from four Departments (Revenue, Taxation, Transport and Home) had not been received for the Audit Reports for the years ended 31 March 2011, 2012, 2013, 2014 and 2015 (January 2017).

The PAC discussed 24 selected paragraphs/reviews pertaining to the Audit Reports for the years 2011, 2012, 2013 and 2014 and its recommendations on 19 paragraphs were incorporated in their 38th, 40th, 45th and 47th Reports. However, Action taken Notes (ATNs) have not been received in respect of

19 recommendations of the PAC from the Departments concerned as mentioned in the following table.

Table No. 3.6.4 Position of Outstanding ATNs

Year	Name of Department	No. of Recommendations
2011	Transport	3
2012	Transport	1
	Taxation	4
2013	Taxation	3
	Tourism	1
	Transport	1
2014	Revenue	1
	Taxation	4
	Transport	1
Total		19

Source: Records of the Accountant General (Audit), Manipur

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

To analyse the system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Departments/ Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 3.7.1 and 3.7.2 discuss the performance of Land Revenue Department under revenue head 0029. Cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15 are discussed.

3.7.1 Position of Inspection Reports

The summarised position of the Inspection Reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2016 are shown in the following table.

Table No. 3.7.1 Position of Inspection Reports

(Money Value ₹ in crore)

Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance during the year		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1	2006-07	23	56	2.15	12	32	2.99	2	2	0	33	86	5.14
2	2007-08	33	86	5.14	17	40	3.62	4	11	0.60	46	115	8.16
3	2008-09	46	115	8.16	7	24	1.81	0	9	0.12	53	130	9.85
4	2009-10	53	130	9.85	14	50	5.91	1	6	0.03	66	174	15.73
5	2010-11	66	174	15.73	10	24	2.90	1	8	0.01	75	190	18.62
6	2011-12	75	190	18.62	12	21	2.04	7	14	1.14	80	197	19.52
7	2012-13	80	197	19.52	8	23	3.04	1	4	0.05	87	216	22.51
8	2013-14	87	216	22.51	6	28	3.07	1	6	0.02	92	238	25.56
9	2014-15	92	238	25.29	16	99	11.04	0	7	0.14	108	330	36.46
10	2015-16	108	330	36.19	7	55	46.06	0	3	2.14	115	382	80.38

Source: Records of the Accountant General (Audit), Manipur

The Government arranges *ad hoc* Committee meetings between the Department and AG (Audit) to settle the old paragraphs.

3.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Departments and the amount recovered are mentioned in the following table.

Table No. 3.7.2 Position of Paragraphs Accepted by the Departments

(₹ in crore)

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs	No. of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2005-06	1	0.02	1	0.02	Nil	Nil
2006-07	1	0.04	1	0.04	Nil	Nil
2007-08	Nil	Nil	Nil	Nil	Nil	Nil
2008-09	Nil	Nil	Nil	Nil	Nil	Nil
2009-10	1	0.06	1	0.06	Nil	Nil
2010-11	Nil	Nil	Nil	Nil	Nil	Nil
2011-12	1	0.03	1	0.03	Nil	Nil
2012-13	Nil	Nil	Nil	Nil	Nil	Nil
2013-14	1	0.32	Nil	Nil	Nil	Nil
2014-15	Nil	Nil	Nil	Nil	Nil	Nil
Total	5	0.47	4	0.15	Nil	Nil

Source: Records of the Accountant General (Audit), Manipur

From the above table it is observed that the progress of recovery even in accepted cases was very slow during the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. Further, the arrear cases including accepted audit observations were not available with the office of the Sub-Registrar, Land Revenue Department. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

3.7.3 Action taken on the recommendations accepted by the Departments/Government

The draft of Performance Audits (PAs) conducted by the office of the AG (Audit), Manipur are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These PAs are also discussed in an exit conference and the Department's/Government's views are included while finalizing the Audit Reports.

During 2010-11 to 2014-15, three PAs i.e. "Declaration forms in Inter-State trade and commerce", "Admissibility of Input Tax Credit" (Taxation Department) and "Implementation of Smart Card Project for Driving License and Registration Certificate" (Transport Department) were featured in the Audit Reports. Thirteen recommendations were made by Audit for consideration by the Government.

3.8 Audit Planning

The unit offices under various Departments are categorized into high, medium and low risk units according to their revenue position, past trends of audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* include 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 2015-16, there were 60 auditable units, of which 22 units were planned and 7 units had been audited, which is 20 *per cent* of the total auditable units.

3.9 Results of Audit

Position of local audit conducted during the year

Test check of the records of Taxation Department, Transport Department and Revenue Department conducted during the year 2015-16 showed under assessment/short levy/loss of revenue aggregating to ₹ 38.13 crore in 30 cases. During the course of the year, no reply was furnished by the Departments regarding under assessment and other deficiencies which were pointed out in audit during 2015-16. The Departments had recovered ₹ 4.97 lakh only in 740 cases during 2015-16 pertaining to the audit findings of the previous year.

3.10 Coverage of this Report

This Report contains five compliance audit paragraphs including 'Audit on collection of revenue from outsourced activities in the Transport Department' and four paragraphs under Taxation Department (selected from the audit detections made during the local audit referred to above) involving financial effect of ₹ 3.92 crore.

The Departments/ Government have accepted audit observations involving ₹ 29.50 lakh. In respect of other cases the Government did not furnish any specific replies (January 2017). These are discussed in succeeding paragraphs.

COMPLIANCE AUDIT

TRANSPORT DEPARTMENT

3.11 Audit on collection of revenue from outsourced activities in the Transport Department

3.11.1 Introduction

Transport Department is responsible for issue of driving license, registration of vehicle, route permit of commercial vehicles, collection of road-tax, goods tax, implementation of various provisions of the Motor Vehicles Act, 1988 and Motor Vehicles Rules, 1989 etc. The Commissioner of Transport, Government of Manipur is the administrative head of the Department. The Department is headed by the Director of Transport assisted by two Deputy Directors and one Assistant Director. There were District Transport Officers (DTOs) in eight districts of the State during the period covered by audit i.e 2012-13 to 2015-2016.

The Department has implemented the Smart Card project viz. Computerized System of issuing of Smart Card Based Vehicle Registration Certificates (VAHAN) and Smart Card Based Driving Licenses (SARATHI) since April 2008. The Department has also implemented Affixation of High Security Registration Plate (HSRP) of different types of vehicles since April 2012. Both activities viz. Smart Card project (SCP) and High Security Registration Plate (HSRP) were outsourced to the agencies shown in the following table.

Table No. 3.11.1 Details of outsourcing

Name of the activity/project	Name of outsourcing agencies
Smart Card project	Manipur Electronics Development Corporation Ltd. (MANITRON), a State Government undertaking (w.e.f April 2008)
Affixation of High Security Registration Plates (HSRP Scheme)	M/S Shimnit Utsch India Pvt. Ltd., a Mumbai based registered firm (w.e.f. April 2012)

In case of HSRP, five *per cent* of the sales value is to be collected as royalty of the State Government from the vendor. However, in case of Smart Card Project, the State Government had not fixed any royalty from the vendor MANITRON till the date of audit (October 2016).

The royalty collected by the Department in respect of HSRP scheme since implementation of the scheme are given in the following table.

Table No. 3.11.2 Royalty collected during the last four years

(₹in lakh)

Year	Amount collected as royalty
2012-13	2.68
2013-14	10.52
2014-15	24.97
2015-16	17.57
Total	55.74

Audit test checked the records related to outsourced activities of HSRP and Smart Cards maintained by the Directorate and the District Transport Officers

covering the period 2012-13 to 2015-2016. The audit findings are discussed in the succeeding paragraphs.

3.11.2 Tendering process

For selection of vendor for embossing and affixation of HSRP in Manipur limited tender was called from nine firms in August 2003. Out of the four firms which responded and collected bid documents, two firms⁵⁷ submitted their bids. A tender committee was formed (December 2003) for finalisation of tender.

After rate negotiation with the lowest bidder, the tender committee approved (May 2011) to award the contract to M/S Shimnit Utsch India Pvt. Ltd. The scheme was rolled out from April 2012. Thus, the Department took more than seven years in finalisation of the tender. The final rates for HSRP approved after rate negotiation, for different kind of vehicles inclusive of local Sales Tax (VAT) are as shown in the following table.

Table No. 3.11.3 Approved rates for HSRP

(Amount in ₹)

Rate for two wheelers (scooter)	Rate for two wheelers (motorcycle and moped)	Rate for three wheelers	Rate for Light Motor Vehicles	Rate for Medium /Heavy Motor Vehicles
608	597	735	1,323	1,323

The details of price break-up for each category are given in *Appendix 3.1*.

During the time gap of more than seven years from floating of tenders (March 2003) to rate negotiation (September 2010), the vehicle population in the State had increased by 183 *per cent*⁵⁸. Considering huge increase in vehicle population, the Department should have insisted on more reduction of rates.

Further, the final rates were very high compared to the rates of some States which had rolled out the scheme almost at the same time as shown in the following table.

Table No. 3.11.4 Comparison of HSRP rates in different states

(Amount in ₹)

Sl. No.	State	Effective date	Rate for two wheelers	Rate for three wheelers	Rate for LMV ⁵⁹	Rate for M/HMV ⁶⁰
			(Rate as compared to the rate in Manipur in % in brackets)			
1	Manipur	01.04.2012	597	735	1323	1323
2	Tripura	30.07.2012	340 (56.95)	440 (59.86)	590 (44.59)	590 (44.59)
3	Andaman and Nicobar	04.06.2012	272 (45.56)	303 (41.22)	420 (31.74)	420 (31.74)
4	West Bengal	31.01.2012	282 (47.23)	298 (40.54)	441 (33.33)	469 (35.44)

Source: MORTH website

⁵⁷ M/S Shimnit Utsch India Pvt. Ltd. and M/S Real Mazon Pvt. Ltd.

⁵⁸ $\{(2,06,502 - 73,008)/73,008\} \times 100$

⁵⁹ Light Motor Vehicles

⁶⁰ Medium/Heavy Motor Vehicles

Further, scrutiny of records revealed that the Government (November 2007) instructed Directorate of Transport to re-tender on the ground that the tender was too old. However, no new tender was invited from the vendors despite Government instruction. Thus, the Department failed to take advantage of the increased number of vehicles in the State and rates prevailing in other States and re-tender for embossing and affixation of HSRP. As a result, despite taking more than seven years in finalisation of the tender, the Department failed to get a vendor who could affix HSRP at a price comparable with other States.

3.11.3 Terms and conditions of the agreements in favor of the vendor

3.11.3.1 Terms of agreement for implementation of Smart Card Project

The Department signed (April 2008) an agreement with MANITRON for implementation of Smart Card Project for registration certificates and driving licenses in the State. However, there was no clause for collection of royalty and furnishing of performance security by the vendor. Thus, the Department lost the opportunity to collect revenue from implementation of Smart Card Project.

The original agreement for implementation of Smart Card Project was for a period of five years and expired on 29 October 2013.

The Department made (June 2013) a proposal to the Government for collection of two *per cent* royalty from the vendor at the time of renewal of the agreement. The vendor also agreed (November 2013) to the proposal and requested the Directorate to expedite signing of a new agreement. However, as on date of audit (July 2016), the agreement was not signed with the vendor. As a result, royalty was not collected from implementation of Smart Card Project and the vendor (i.e. MANITRON) was allowed to issue smart cards even after expiry of the agreement. The Department stated that royalty was not imposed on MANITRON as it is a Public Sector Undertaking which requires Government patronage.

3.11.4 Assessment, collection and sharing of revenue

3.11.4.1 Royalty not assessed

The Department did not make any assessment of the royalty due to the Government for any month or any period. The Department only received the amount of royalty on the High Security Registration Plates (HSRP) calculated and deposited by the vendor.

3.11.4.2 Short deposit of royalty

As per Clause 8 of the agreement for HSRP the vendor shall pay royalty at the rate of five *per cent* of the HSRP sale price⁶¹ for which authorization has been placed by the concerned DTOs with it during the relevant month.

As per the records of vehicle population affixed with HSRP submitted by the vendor, the sales value of HSRP for the period from 2012-13 to 2015-16

⁶¹ HSRP sales price includes service tax but excludes Value Added Tax (VAT).

worked out to ₹ 11.44 crore⁶² for which the royalty receivable was ₹ 57.20 lakh⁶³.

However, the vendor had deposited only ₹ 55.74 lakh to the Government as royalty. Thus, there was a shortfall of ₹ 1.46 lakh in payment of royalty as on date of audit (July 2016).

3.11.4.3 Delay in deposit of royalty

Clause 8 of the agreement of HSRP provides that royalty shall be deposited by the 10th of the subsequent month. Any delay will attract an overdue interest of two *per cent* above the annual interest rate specified by RBI for savings bank accounts for every month of delay or part thereof; compounded on a monthly basis.

There was delay ranging from 5 to 196 days in deposit of royalty by the vendor in 38 out of 48 months⁶⁴. However, no penal interest was realised from the vendor for delay deposit.

3.11.4.4 Tardy implementation of conversion of old registration plates into HSRP

For implementation of the scheme, the Directorate issued (December 2011) gazette notification which mandates compulsory HSRPs for newly registered vehicles of all types and conversion of old plates into HSRPs within two years i.e by November 2013. In October 2013, the Directorate has extended the time up to April 2014.

Audit scrutiny revealed that at the end of March 2016, there were backlog of 1,57,491 registered vehicles of various types for which the HSRP has not been affixed. There was no action plan for conversion of old registration plates into HSRPs such as punitive action by enforcement wing, tie-up with Police Department etc. This not only defeated the purpose of HSRP scheme but also resulted in loss of revenue in the form of royalty of ₹ 52.67 lakh (calculated at five *per cent* of the sales value realisable of ₹ 10.53 crore). The details are shown in the following table.

Table No. 3.11.5 Conversion of old registration plates into HSRP

Vehicle type	Total registered vehicles	Vehicles affixed with HSRP	Backlog number of vehicles	Unit price ⁶⁵ (₹)	Sales value (₹)	Royalty realisable (₹)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Two wheelers	2,10,990	89,255	1,21,735	539	6,56,15,165	32,80,758
Three wheelers	15,885	10,285	5,600	663	37,12,800	1,85,640
Four wheelers	79,164	49,008	30,156	1,194	3,60,06,264	18,00,313
Total	3,06,039	1,48,548	1,57,491		10,53,34,229	52,66,711

⁶² Calculated by multiplying the number of vehicles of each category by the HSRP sales price as per agreement.

⁶³ Five *per cent* of sales value of ₹11.44 crore.

⁶⁴ From April 2012 to March 2016.

⁶⁵ Exclusive of VAT.

3.11.5 Lapse in Monitoring

As per Clause 10 of the agreement of the HSRP, the vendor shall provide a report⁶⁶ to the Government on regular basis along with vendor fee statement⁶⁷. However, except for the months of May 2014 and January 2015, the vendor did not furnish the reports. Thus, the Department did not monitor the sales (embossing and affixation of HSRP) by the firm.

As per the procedure of the Department, the customer should fill up the application for HSRP and the DTO concerned sends the signed application (authorisation) to the HSRP office. None of the eight DTOs⁶⁸ maintained registers of authorization issued for fixing HSRP. As a result, there was no record for cross checking the number of vehicles for which authorisation has been issued by each DTO and the actual number of vehicles affixed with HSRP and the royalty amount deposited by the vendor. More importantly, there were provisions that HSRP should be ready for fitment within two working days by the vendor. Implementation of this provision could not be ascertained in absence of register of authorisation and reports of affixation in the Department.

Audit also noticed delay in remittance of royalty received by the Directorate to Government account ranging from two to 66 days.

3.11.6 Conclusion

The department could not avail the competitive rates for High Security Registration Plates (HSRPs) due to acceptance of rates quoted seven years back and not followed the advice of the Government for re-tender. Tardy implementation of HSRP defeated the purpose of the scheme and resulted in loss of revenue. None of the District Transport Officers (DTOs) maintained records for cross checking the number of vehicles affixed with HSRPs without authorisation of the Department.

3.11.13 Recommendation

- The Government may ensure that the Transport Department follow fair and transparent tendering process to enable receipt of competitive bids so that appropriate price advantage is availed without compromising the quality of service rendered;
- The Government may also ensure that the Transport Department prepare an action plan for conversion of the old registration plates into HSRP in a time bound manner and execute the same to accomplish the task in an effective way; and
- The Government should establish proper monitoring system for cross verification of the number of vehicles affixed with HSRPs with that of authorisation given by the DTOs.

⁶⁶ In the form and manner set forth in Schedule F of the agreement.

⁶⁷ As specified in Schedule E.

⁶⁸ DTOs of Imphal West, Imphal East, Thoubal, Bishnupur, Churachandpur, Senapati, Kangpokpi and Ukhrul.

TAXATION DEPARTMENT
3.12 Concealment of Purchase

Due to inaction of the Department, nine dealers escaped assessment and evaded tax of ₹ 2.70 crore for which penalty of ₹ 5.40 crore is also payable by the dealers

The Manipur Value Added Tax (MVAT) Act, 2004 (Act) and the MVAT Rules, 2005 (Rules) stipulates that:

- Every registered dealer with quarterly turnover exceeding ₹ 40.00 lakh shall furnish monthly return within 20 days from the end of the month and those with quarterly turnover exceeding ₹ 5.00 lakh but not exceeding ₹ 40.00 lakh shall furnish quarterly return within 20 days from the close of the quarter [Section 28 of the Act and Rule 10 of MVAT (First Amendment) Rules, 2012];
- Where a registered dealer fails to furnish the return in respect of any tax period within the prescribed time, the Commissioner of Taxes shall assess to the best of his judgement, the amount of tax payable by the dealer [Section 35 of the Act and Rules 27(2) of the Rules]; and
- If the Commissioner of Taxes is satisfied that the dealer, in order to evade or avoid payment of tax has failed to furnish without reasonable cause, return in respect of any period by the prescribed date, penalty at twice the amount of additional tax assessed shall be levied [Section 36 (7) of the Act].

Audit of records (July 2015) of Commissioner of Taxes, Manipur revealed that nine dealers did not furnish tax returns for various tax periods, reason(s) for which was not available on record. However, on examination of records of the Taxation Check Post at Hengbung, Senapati, it was noticed that these dealers had purchased Cement, Iron and Steel, Water tank *etc.* worth ₹ 37.64 crore between July 2013 and July 2014 against road permits issued by the Department on which VAT of ₹ 2.70 crore was leviable as shown in **Appendix 3.2**. In spite of being aware of the dealers' interstate purchases (through issue of road permits from time to time), the Department did not assess the defaulting dealers on best judgement basis as required under the provisions of the Act.

Thus, due to inaction of the Department, the dealers escaped assessment and evaded tax to the tune of ₹ 2.70 crore. The dealers were also liable to pay penalty of ₹ 5.40 crore for failure to file returns within the stipulated time.

The Commissioner of Taxes, Manipur stated (July 2015) that the matter would be looked into and further reply would be furnished. The reply from the Department is still awaited (January 2017).

3.13 Concealment of sales turnover

Concealment of sales turnover resulted in evasion of tax of ₹ 25.46 lakh by a dealer for which penalty to the tune of ₹ 50.92 lakh was also leviable

As per Section 39(1) of the MVAT Act, if the whole or part of the turnover of a dealer of any period has escaped assessment or has been under-assessed; amount of tax due may be assessed/ re-assessed by the Tax Authority. Further, under Section 36(7) of the Act, penalty equal to twice the amount of additional tax assessed is leviable in the event of furnishing incorrect and incomplete returns on the part of the dealer.

Audit of records (July 2015) of the Commissioner of Taxes showed that one dealer⁶⁹ had filed returns for the quarters ending December 2012 and September 2013 for ₹ 1.70 lakh. These returns were duly accepted by the Assessing Authority while passing the assessment orders.

However, records of the accounts of Manipur Industrial Development Corporation Ltd. (MANIDCO) showed that the dealer had sold steel worth ₹ 193.66 lakh⁷⁰ (December 2012) and cement worth ₹ 136.50 lakh⁷¹ (November 2012 and September 2013) to the Corporation. These sales were not disclosed in the returns filed by the dealer. The Assessing Authority was unable to detect the concealment of sales valued at ₹ 330.16 lakh with a tax effect of ₹ 25.46 lakh leading to loss of Government revenue to that extent. Details of the sales are as shown in the following table.

Table No. 3.13.1 Details of sales value of steel and cement

(₹ in lakh)

Quarter ending	Steel		Cement		Total VAT leviable
	Sales value (inclusive of VAT)	VAT (5%)	Sales value (inclusive of VAT)	VAT (13.5%)	
December 2012	193.66	9.22	91.00	10.82	20.05
September 2013	0	0	45.50	5.41	5.41
Total	193.66	9.22	136.50	16.23	25.46

Thus, the dealer is liable to pay evaded tax of ₹ 25.46 lakh. Besides, penalty of ₹ 50.92 lakh⁷² was also leviable on the dealer for suppression of sales and evasion of tax.

Such instances of concealment of turnover and escaping the tax net could have been detected had the Department implemented the provision of Tax Audit (Section 33) and Audit Assessment (Section 36) as provided in the MVAT Act.

The Commissioner of Taxes, Manipur stated (July 2015) that the matter would be looked into and action taken would be furnished to Audit. The reply from the Department is still awaited (January 2017).

⁶⁹ M/s Goodhealth India (Pvt.) Ltd. (TIN-14810142175)

⁷⁰ Inclusive of 5% VAT

⁷¹ Inclusive of 13.5% VAT

⁷² 2 x ₹ 25.46 lakh = ₹ 50.92 lakh.

3.14 Evasion of tax

Delay in assessment of returns filed resulted in tax evasion to the tune of ₹ 7.29 lakh and penalty to the tune of ₹ 14.58 lakh

Section 36(6) of MVAT Act empowers the Commissioner of Taxes to assess a dealer to the best of his judgment if the dealer had filed incomplete and incorrect return for any period. Section 36(7) provides *inter alia* that penalty equal to twice the amount of additional tax assessed is leviable in the event of evasion or avoidance of payment of tax. Further, as per order⁷³ of the Taxation Department, assessment of returns filed by dealers must be completed within next two quarters *i.e.* within six months.

Audit of records of the Commissioner of Taxes (July 2015) showed that one dealer⁷⁴ filed (October 2013) nil return for the period ending September 2013. It was observed that the assessment of the return filed by the dealer was not yet done (June 2015) even after a delay⁷⁵ of more than 14 months.

While cross checking with records collected from the Taxation Check Gate at Hengbung (Senapati District) it was noticed that the dealer purchased cement and steel worth ₹ 129 lakh from outside the State in September 2013. However, the purchases were not disclosed in the return filed by the dealer and thus there was concealment of purchases worth ₹ 1.29 crore with a tax effect of ₹ 7.29 lakh. The details are shown in the following table.

Table No. 3.14.1 Details of purchase of steel and cement

(₹ in lakh)

Sl. No.	Form 27	Date of entry	Steel		Cement		Total VAT leviable
			Cost	VAT leviable (5%)	Cost	VAT leviable (13.5%)	
1	4095/102356	09-09-2013	27.00	1.35	0	0	1.35
2	4095/102355	10-09-2013	0	0	3.60	0.48	0.49
3	4095/102354	11-09-2013	20.00	1.00	1.80	0.24	1.24
4	439/10955	19-09-2013	27.51	1.38	0.90	0.12	1.50
5	439/10956	24-09-2013	18.59	0.93	0	0	0.93
6	439/10957	26-09-2013	35.77	1.79	0	0	1.79
Total			128.87	6.45	6.30	0.85	7.29

Had the Assessing Authority made assessment in time and cross-checked the returns filed by the dealer along with the records of the check gates, the purchase of goods valued at ₹1.29 crore could have been detected and evasion of tax to the tune of ₹ 7.29 lakh could have been avoided. Thus, the dealer evaded tax of ₹ 7.29 lakh by filing incorrect returns. Besides, penalty of ₹ 14.58 lakh⁷⁶ was also leviable on the dealer for suppression of purchases and evasion of tax under Section 36(7) of the Act *ibid*.

⁷³ No. Tax/1 (130)/IMP/2011 dated 18-02-2013.

⁷⁴ M/s Soraisam Ratankumar Singh (TIN-14810058111).

⁷⁵ The delay counted from two quarters (April 2014) after the return was filed by the dealer.

⁷⁶ Penalty leviable = 2 x ₹ 7.29 lakh = ₹ 14.58 lakh

The Commissioner of Taxes stated (December 2016) that recovery certificate under Form 37 had already been issued to the concerned Deputy Commissioner, Imphal East district to recover the tax amount as well as the penalty amount as arrears of Land revenue. Recovery, if any, has not been intimated till date (January 2017).

3.15 Loss of revenue

The Government suffered a loss of ₹ 22.21 lakh due to unregistered dealers

Section 8 of the MVAT Act provides that a dealer other than importer or manufacturer is liable to pay tax with effect from the date immediately following the day on which his gross turnover first exceeded the taxable limit of ₹ 5.00 lakh⁷⁷ during a period of any twelve consecutive months. Section 24 read with Section 28 *ibid* requires that any dealer liable to pay tax shall get himself registered in two months' time from the date from which he is first liable to pay such tax and furnish return by such date as may be prescribed. Under Section 37(1) *ibid*, if the Commissioner, upon information which has come into his possession, is satisfied that any dealer who has been liable to pay tax under this Act, in respect of any period, has failed to get himself registered, the Commissioner shall proceed in such a manner as may be prescribed to assess to the best of his judgement the amount of tax due from the dealer in respect of such period and all subsequent periods and in making such assessment he shall give the dealer reasonable opportunity of being heard.

Scrutiny of the Works Contract returns filed by M/s Simplex Project Ltd (the Contractor) during audit (June-July 2015) of the accounts of the Commissioner of Taxes, Manipur⁷⁸ showed that the Contractor had purchased hardware, cement, steel and electrical goods whose gross value was ₹ 262.21 lakh during the period from March 2013 to December 2014 from two unregistered dealers as shown in the following table.

Table No. 3.15.1 Details of purchase of goods from unregistered dealers

(₹ in lakh)

Dealers	Period	Sales	VAT (₹)
M/s H. Madhurjit Singh, Keishampat Mutum Leirak, Imphal West	03/2013 to 12/2014	244.35	20.19
M/s N. Helendro Singh, Palace Compound, Imphal East	06/2013 to 12/2014	17.86	2.02
Total		262.21	22.21

⁷⁷ As modified vide the Manipur Value Added Tax (1st Amendment) Act 2012

⁷⁸ Accounts for the period 01 April 2014 to 31 March 2015

In spite of gross turnover exceeding the taxable limit, the above two dealers failed to get themselves registered and file their tax returns as per provisions *ibid*. Moreover, even after disclosure in the returns filed by M/s Simplex Project Ltd of purchases from unregistered dealers, the Commissioner failed to act as required under Section 37(1) *ibid*. Thus, there was loss of VAT to the tune of ₹ 22.21 lakh to the Government.

On this being pointed out (July 2015), the Commissioner stated (December 2016) that the defaulting dealers were not traceable.

Imphal
The

6 APR 2017



(D. Jaisankar)
Accountant General (Audit), Manipur

Countersigned



New Delhi
The

11 APR 2017

(Shashi Kant Sharma)
Comptroller and Auditor General of India