

**CHAPTER-VI**  
**REVENUE RECEIPTS**

### 6.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Jammu and Kashmir during the year 2007-08, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

Table 6.1.1

		(Rupees in crore)				
Sl. No.		2003-04	2004-05	2005-06	2006-07	2007-08 <sup>1</sup>
<b>I-Revenue raised by the State Government</b>						
(i)	Tax revenue	1,170.28	1,351.05	1,626.84	1,798.97	2558.18
(ii)	Non-tax revenue	632.54	641.42	535.81	632.53	807.98
(iii)	<b>Total</b>	<b>1,802.82</b>	<b>1,992.47</b>	<b>2,162.65</b>	<b>2,431.50</b>	<b>3366.16</b>
<b>II-Receipts from the Government of India</b>						
(i)	State's share of divisible Union taxes	817.42	934.43	1,135.36	1,413.43	1,775.01
(ii)	Grants-in-aid	5,591.43	5,939.58	7,017.14	7,337.10	8135.87
	<b>Total</b>	<b>6,408.85</b>	<b>6,874.01</b>	<b>8,152.50</b>	<b>8,750.53</b>	<b>9910.88</b>
<b>III-Total receipts of the State</b>		<b>8,211.67</b>	<b>8,866.48</b>	<b>10,315.15</b>	<b>11,182.03</b>	<b>13,277.04<sup>2</sup></b>
<b>IV-Percentage of I to III</b>		<b>22</b>	<b>22</b>	<b>21</b>	<b>22</b>	<b>25</b>

The above table indicates that during the year 2007-08 the revenue raised by the State Government comprised 25 *per cent* of the total revenue of Rs. 13,277.04 crore as compared to 22 *per cent* in the preceding year. The balance 75 *per cent* of receipts during 2007-08 was from the Government of India.

- The details of tax revenue raised during the year 2007-08 alongwith the figures for the preceding four years are mentioned in Table 6.1.2.

<sup>1</sup> The figures vary with those depicted in the Finance Accounts due to rectification of misclassified receipts of 2006-07 during 2007-08.

<sup>2</sup> Note: For details, please see Statement No. 11-Detailed account of revenue by minor heads in the Finance Accounts of the Government of Jammu and Kashmir for the year 2007-08. Figures under the head "0020-corporation tax, 0021-taxes on income other than corporation tax, 0032-taxes on wealth, 0037-customs, 0038-union excise duties, 0045-other taxes and duties on commodities and services"-share of net proceeds assigned to states booked in the Finance Accounts under tax revenue have been excluded from revenue raised by the State and included in State's share of divisible Union taxes in this statement.

**Table 6.1.2**

**(Rupees in crore)**

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	Sales tax	674.38 <sup>3</sup>	804.12	1,014.49	1,159.72 <sup>4</sup>	1,804.81	(+) 56
2.	State excise	204.83	272.37	218.68	212.80	244.15	(+) 15
3.	Stamps and registration fee	33.58	39.25	46.43	56.93	65.63	(+) 15
4.	Taxes and duties on electricity	32.67	49.36	58.02	59.70	93.49	(+) 57
5.	Taxes on vehicles	38.43	41.68	49.17	63.96	72.60	(+) 14
6.	Taxes on goods and passengers	182.63	132.62	236.27	243.16	264.59	(+) 9
7.	Taxes on immovable property other than agricultural land	0.29	0.30	0.09	0.06	-	(-) 100
8.	Land revenue	3.18	11.24	3.47	2.57	9.58	(+) 273
9.	Other taxes and duties on commodities and services	0.29	0.11	0.22	0.07	3.33 <sup>5</sup>	(+) 4657
<b>Total</b>		<b>1,170.28</b>	<b>1,351.05</b>	<b>1,626.84</b>	<b>1,798.97</b>	<b>2558.18</b>	<b>(+) 42</b>

The departments did not intimate the reasons for variation despite being requested (October 2008).

- The details of major non-tax revenue raised during the year 2007-08 alongwith figures for the preceding four years are mentioned in Table 6.1.3.

<sup>3</sup> Includes service tax of Rs. 72.23 lakh

<sup>4</sup> Includes service tax of Rs. 66.55 lakh

<sup>5</sup> Includes service tax of Rs. 3.32 crore

Table 6.1.3

							(Rupees in crore)
Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage increase (+)/decrease (-) in 2007-08 over 2006-07
1	Power	368.22	382.87	384.31	478.94	600.94	(+) 25
2	Interest receipts, dividends and profits	133.90	144.40	25.05	34.02	65.33	(+) 92
3	Forest and wild life	56.35	43.46	45.51	18.99	32.20	(+) 70
4	Public works	10.13	11.76	12.63	16.16	16.44	(+) 2
5	Medical and public health	8.38	8.02	8.83	12.62	13.21	(+) 5
6	Water supply and sanitation	6.21	7.36	9.58	10.95	13.64	(+) 25
7	Police	7.26	5.30	8.01	6.59	4.21	(-) 36
8	Non-ferrous mining and metallurgical industries	4.39	6.01	8.54	9.98	16.43	(+) 65
9	Crop husbandry	3.69	4.18	4.35	4.31	4.52	(+) 5
10	Animal husbandry	3.61	3.99	3.98	4.75	4.66	(-) 2
11	Others	30.40	24.07	25.02	35.22	36.40	(+) 3
<b>Grand total:</b>		<b>632.54</b>	<b>641.42</b>	<b>535.81</b>	<b>632.53</b>	<b>807.98</b>	<b>(+) 28</b>

The following were the reasons for variations:

<b>Power</b>	The increase was due to revision of power tariff rate during 2007-08.
<b>Interest receipts</b>	The increase was due to more receipts of interest and dividends from investment as well as other receipts.
<b>Forest and wildlife</b>	The increase was mainly due to increase in sale of timber and other forest produce as well as more receipts under Environmental Forestry and Wild life.
<b>Water supply and sanitation</b>	The increase was due to realisation of more revenue on account of Rural and urban water supply schemes as well as other receipts.
<b>Police</b>	The decrease was mainly due to lesser receipts under sub head fees, fines and forfeitures as well as other receipts.
<b>Non-ferrous mining and metallurgical industries</b>	The increase was due to more receipts from mineral concession fees, rents and royalties as well as other receipts.

### 6.1.2 Variation between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of the principal heads of tax revenue are mentioned below:

Table 6.1.4

(Rupees in crore)

Head of revenue	Budget estimates	Actuals	Variations excess (+) or shortfall (-)	Percentage of variation
<b>Tax Revenue</b>				
Sales tax	1,422.31	1,804.81	(+) 382.50	27
State excise	225.00	244.15	(+) 19.15	9
Stamps and registration fee	66.70	65.63	(-) 1.07	2
Taxes on goods and passengers	275.00	264.59	(-) 10.41	4
Taxes and duties on electricity	135.78	93.49	(-) 42.29	31
Taxes on vehicles	71.50	72.60	(+) 1.10	2

The departments did not inform the reasons for variation despite being requested (October 2008).

### 6.1.3 Analysis of collection

The break-up of the total collection at pre-assessment stage and after regular assessment of sales tax and motor spirit tax for the year 2007-08 and the corresponding figures for the preceding two years, in respect of which information was furnished by the department, was as follows:

Table 6.1.5

(Rupees in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 3 to 7
1	2	3	4	5	6	7	8
Sales tax <sup>6</sup>	2005-06	736.74	3.66	-	0.03	740.37	100
	2006-07	887.11	1.00	-	-	888.11 <sup>7</sup>	100
	2007-08	1160.63	1.16	50.30	-	1212.09	96
Motor spirit tax	2005-06	218.27	0.14	-	-	218.41	100
	2006-07	248.99	-	0.20	-	249.19	100
	2007-08	268.37	0.02	0.02	-	268.41	100

During 2007-08, 96 per cent sales tax collections were made at pre-assessment stage.

<sup>6</sup> Including service tax during 2005-06 and 2006-07

<sup>7</sup> Includes interest levied/collected

### 6.1.4 Cost of collection

The figures for gross collection in respect of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2005-06, 2006-07 and 2007-08, alongwith the relevant all India average percentage of expenditure on collection to gross collection for 2006-07 were as follows:

**Table 6.1.6**

(Rupees in crore)

Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2006-07
Sales tax <sup>8</sup>	2005-06	1,014.49	12.94	1	0.82
	2006-07	1,159.72	13.88	1	
	2007-08	1,804.81	14.52	1	
Taxes on vehicles	2005-06	49.17	2.98	6	2.47
	2006-07	63.96	3.12	5	
	2007-08	72.60	3.98	5	
State excise	2005-06	218.68	9.98	5	3.30
	2006-07	212.80	9.43	4	
	2007-08	244.15	9.88	4	
Stamps and registration fee	2005-06	46.43	4.83	10	2.33
	2006-07	56.93	4.55	8	
	2007-08	65.63	13.41	20	

Percentage cost of collection of taxes on vehicles, State excise and stamps and registration fee during 2007-08 was higher than the all India average cost of collection for the year 2006-07. Increase in expenditure over the previous year was mainly due to printing of various types of stamps and forms at Government Press Nasik.

### 6.1.5 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2008 in respect of some principal heads of revenue in respect of which information was furnished by the department amounted to Rs. 1011.00 crore of which Rs. 687.91 crore was outstanding for more than five years as detailed in Table 6.1.7.

<sup>8</sup> Including service tax for the year 2005-06 and 2006-07

**Table 6.1.7**

(Rupees in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2008	Amount outstanding for more than five years as on 31 March 2008	Remarks
1.	Sales tax (including Motor Spirit)	960.39	659.60	Out of total arrears of Rs. 960.39 crore, recovery of Rs. 25.12 crore was stayed by courts/appellate authority.
2.	State excise	3.54	3.54	Out of the total arrears of Rs. 3.54 crore recovery of Rs. 0.13 crore was stayed by courts and arrears of Rs. 3.41 crore was proposed to be recovered as arrears of land revenue.
3.	Taxes on goods and passengers	46.85	24.55	Out of total arrears, recovery of Rs. 14.89 crore on account of toll tax was stayed by courts and Rs. 2.81 crore was proposed to be recovered as arrears of land revenue.
4.	Entertainment tax	0.22	0.22	Demand notices for recovery of Rs. 0.22 crore were stated to have been issued.
<b>Total</b>		<b>1,011.00</b>	<b>687.91</b>	

The arrears outstanding for more than five years constituted 68 *per cent* of the total arrears.

### **6.1.6 Arrears in assessment**

The details of cases pending assessment at the beginning of the year 2007-08, cases due for assessment, those disposed of during the year and cases pending finalisation at the end of the year 2007-08, as furnished by the Commercial Taxes Department in respect of sales tax/VAT and tax on works contracts, are as follows:

**Table 6.1.8**

Sl. No.	Name of tax	Opening balance	New cases due for assessment during 2007-08	Total number of assessments due	Cases disposed during the year 2007-08	Balance at the end of the year	Percentage of column 6 to 5
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Sales tax	7,093	18,963	26,056	11,151	14,905	43
2.	Tax on works contracts	1,430	2,866	4,296	989	3,307	23
<b>Total</b>		<b>8,523</b>	<b>21,829</b>	<b>30,352</b>	<b>12,140</b>	<b>18,212</b>	<b>40</b>

Despite reduction of 40 *per cent* in arrears of assessments, 18,212 assessments were in arrears at the close of 2007-08. Since Value Added Tax has been introduced in the State from the year 2005-06, the department needs to take immediate steps to complete the pending assessments within a definite period.

**6.1.7 Evasion of tax**

The details of tax evasion cases detected by the sales tax and excise departments, those finalised and the cases where additional tax was demands were raised, as reported by the departments, are mentioned below:

Table 6.1.9

Sl. No.	Name of tax/duty	Cases pending as on 31 March 2007	Cases detected during 2007-08	Total	No. of cases in which assessment/investigations completed and additional demand including penalty etc. raised		No. of cases pending finalisation as on 31 March 2008
					No. of cases	Amount (Rupees in crore)	
1.	Sales tax	22	1,465	1,487	902	0.42	585
2.	State excise	1	Nil	1	Nil	Nil	1
3.	Taxes on goods and passengers	99	126	225	189	0.18	36

The progress of recovery of amount was not intimated (October 2008).

**6.1.8 Write-off and waiver of revenue**

Arrears of Rs. 73.30 crore pertaining to sales tax were waived during 2007-08. Further, Rs. 36.99 crore were reduced due to rectification, appeals and remission during the year 2007-08.

**6.1.9 Refund**

The number of refund cases pending at the beginning of the year 2007-08, claims received during the year, refunds allowed during the year and the cases pending at the close of year 2007-08, as reported by the Sales tax Department, are mentioned below:

Table 6.1.10

Sl. No.		(Rupees in crore)	
		Sales tax	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year 2007-08	57	3.19
2.	Claims received during the year	47	0.77
3.	Refund made during the year	19	0.61
4.	Balance outstanding at the end of the year 2007-08	85	3.35

Reasons for non-settlement of the remaining 85 cases at the end of the year 2007-08 were not intimated.

**6.1.10 Results of audit**

Test check of the records of sales tax, state excise and motor vehicles tax conducted during the year 2007-08 revealed underassessment/short levy/loss of revenue amounting to Rs. 78.52 crore in 944 cases. During the year, the departments accepted/issued notices on account of short levy/loss of revenue of Rs. 43.77 crore in 268 cases.

This chapter of Audit Report contains seven paragraphs and two reviews bringing out cases of concealment of turnover, non/short levy of taxes, duties, interest/penalty and irregular tax exemption of tax and loss/non-recovery of revenue of Rs. 44.90 crore. Of this, the Government/department accepted the audit observations involving money value of Rs. 14.59 crore and recovered Rs. 48.28 lakh including Rs. 6.26 lakh recovered in respect of two draft paragraphs after they were issued to Government/department in 2007-08. The progress of recovery in remaining cases has not been intimated (September 2008).

#### **6.1.11 Response of the departments to draft audit paragraphs**

Draft paragraphs are forwarded to the Principal Secretary/Secretary of the concerned administrative department seeking confirmation of facts and figures as well as comments within six weeks. Nine draft paragraphs and two reviews were forwarded to the concerned departments/Government in February, March, April, June, July and September 2008. Replies of the department in respect of six draft paragraphs were received in May, June and July 2008 and reply to three draft paragraphs and two reviews are awaited from the concerned department/Government.

#### **6.1.12 Follow up on Audit Reports - summarised position**

Status of reviews/paragraphs of Revenue Receipts Chapter pending discussion by the Public Accounts Committee as on 31 March 2008 was as under:

**Table 6.1.11**

Period of Audit Reports	Total number of reviews and paragraphs that appeared in Revenue Receipts Chapter of Audit Report		No. of reviews and paragraphs pending discussion <sup>9</sup>	
	Reviews	Paragraphs	Reviews	Paragraphs
1990-1991	-	5	-	5
1991-1992	-	8	-	8
1992-1993	1	5	1	5
1993-1994	2	5	2	5
1994-1995	1	14	1	14
1995-1996	4	9	4	9
1996-1997	2	4	2	4
1997-1998	-	9	-	4+2 <sup>ψ</sup>
1998-1999	1	11	1	9+2 <sup>ψ</sup>
1999-2000	-	7	-	6+1 <sup>ψ</sup>
2000-2001	1	7	1 <sup>ψ</sup>	7
2001-2002	1	8	1	6+2 <sup>ψ</sup>
2002-2003	1	8	1	7+1 <sup>ψ</sup>
2003-2004	-	4	-	4
2004-2005	1	5	1	1+2 <sup>ψ</sup>
2005-2006	-	8	-	2+3 <sup>ψ</sup>
2006-2007	1	4	1	4
<b>Total</b>	<b>16</b>	<b>121</b>	<b>16</b>	<b>113</b>

<sup>9</sup> As per the 48<sup>th</sup> report of the Public Accounts Committee received for vetting in January 2008, five paras on revenue receipts featuring in Audit Reports 2004-05 (2 paras) and 2005-06 (3 paras) have been discussed fully.

<sup>ψ</sup> Partly discussed.

## Performance Review

### Transport Department

#### 6.2 Taxes on Motor Vehicles

##### Highlights

- **Non-conducting of inspection of vehicles resulted in non-recovery of Rs. 9.25 crore during 2003-04 to 2006-07. Token tax of Rs. 1.15 crore was also not recovered during the same period.**  
(Paragraphs: 6.2.7.3 and 6.2.7.4)
- **Non-imposition of penalty due to over-loading of vehicles resulted in loss of Rs. 25.72 crore during April 2004 to March 2008.**  
(Paragraph: 6.2.11)
- **Administrative inspections as well as internal audit of the subordinate units were not conducted.**  
(Paragraphs: 6.2.12.2 and 6.2.12.3)

##### 6.2.1 Introduction

Registration of motor vehicles, issuance of licences/permits, and levy and collection of fees and taxes in the Jammu and Kashmir State are regulated under the Motor Vehicles (MV) Act, 1988, Central Motor Vehicles (CMV) Rules 1989, the Jammu and Kashmir Motor Vehicles, Taxation Act, 1957, the Jammu and Kashmir Taxation Rules, 1957 and the Jammu and Kashmir Motor Vehicles Rules, 1991. The responsibilities of the Transport Department include registration of all types of vehicle, licensing of taxies/buses, issue of permits authorising the use of vehicles, besides collection of token taxes, fees, and issue of driving licences etc. through Regional Transport Officers/Assistant Regional Transport Officers (RTOs/ARTOs).

##### 6.2.2 Organisational set up

The administration of motor vehicle taxes and fees in the State is entrusted to the Transport Commissioner who is assisted by three RTOs (Kashmir, Jammu and Lakhanpur) and 11 ARTOs (Kashmir: 7<sup>10</sup>, Jammu: 4<sup>11</sup>).

##### 6.2.3 Audit objectives

Performance review was undertaken with an objective to assess whether

- the rules framed under various Acts were enforced effectively;
- collection of revenue was done efficiently, effectively and economically;
- effective measures were taken with regard to the recoveries of outstanding revenue and

<sup>10</sup> Anantnag, Baramulla, Budgam, Kupwara, Kargil, Leh and Pulwama

<sup>11</sup> Doda, Poonch, Rajouri and Udhampur

- effective internal control mechanism was in place to prevent leakage of revenue.

#### **6.2.4 Scope of audit**

The performance review of the department covering the period from 1997-98 to 2001-02 figured in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2002. The present performance review covering the period 2003-04 to 2007-08 was conducted between October 2007 and April 2008 by test check of the records of the Transport Commissioner, J&K, three RTOs and five ARTOs (out of 14 RTOs/ARTOs).

#### **6.2.5 Audit methodology**

Audit sample was selected by adoption of two stage statistical sampling method. In the first stage the RTOs/ARTOs were selected on the basis of probability proportion to size (PPS). In the second stage the vehicle records were selected using Systematic Random Sampling method.

#### **6.2.6 Acknowledgement**

The Indian Audit and Accounts Department acknowledges the co-operation of the Transport Department in providing necessary information for audit. An entry conference was held with the Joint Transport Commissioner J&K, in February 2008 wherein the audit objectives were discussed. The audit observations were forwarded to the Government in September 2008 and discussed in the audit review committee meeting held in July 2008. The replies of the Government have been suitably incorporated in the audit paragraphs.

#### **6.2.7 Revenue realisation and cost of collection**

Details of revenue collected in the shape of fees, fines, taxes etc. vis-a-vis budget estimates together with the cost of its collection during the period from 2003-04 to 2007-08 was as under:

**Table: 6.2.1**

Year	Revenue (Rupees in crore)			Number of vehicles registered (in lakh)	Expenditure incurred on collection (Rupees in crore)	Cost of collection ( <i>per cent</i> )
	Budget estimates	Actual	Variation in percent			
2003-04	35.62	38.16	(+) 7	0.40	1.59	4.17
2004-05	36.61	41.72	(+) 14	0.39	1.65	3.95
2005-06	42.65	48.45	(+) 14	0.45	1.91	3.94
2006-07	50.28	63.03	(+) 25	0.46	2.23	3.54
2007-08	65.50	71.59	(+) 9	0.50	3.88	5.42

Thus, the cost of collection of revenue during the period 2003-04 to 2007-08 ranged between 3.54 and 5.42 *per cent* of the revenue realised, which was much higher than the all India average cost of collection of 2.66 *per cent*.

### 6.2.7.1 Registration of vehicles

The MV Act provides that a certificate of registration (COR) of non-transport motor vehicles shall be valid for 15 years from the date of its issue. It is renewable on request for a further period of five years on payment of prescribed fee and after obtaining certificate of fitness from the competent authority. In case of default, a penalty of Rs. 100 per case is chargeable.

Scrutiny of records revealed that in RTO, Srinagar, though COR in respect of 932 non-transport motor vehicles, registered between April 1988 and December 1992, was not renewed, yet no action was taken by the RTO to realise the dues. As a result, the renewal fee of Rs. 1.51 lakh was not realised.

After the cases were pointed out, it was stated (January 2008) by RTO Srinagar that the action could not be taken due to shortage of manpower. The department had failed to refer the list of defaulters to the Traffic Department for further action.

### 6.2.7.2 Issuance of permits

Under Section 66(1) of the MV Act, no owner of a motor vehicle shall use or permit to the use of the vehicle as transport vehicle in any public place whether or not such type of vehicle is actually carrying any passengers or goods, save in accordance with the conditions of a permit granted or countersigned by a Regional or a State Transport Authority.

Further, under Section 81 (2) of the Act, the permit holders have to renew their permits annually on an application made not less than 15 days before its expiry. Also Rule 80(G) of the Jammu and Kashmir Motor Vehicles Rules provides that in respect of belated applications for renewal of all categories of permits, additional fee of Rs. 10 per day for 45 days and Rs. 20 for each subsequent day shall be charged.

Scrutiny of the records revealed that in nine<sup>12</sup> RTOs/ARTOs, permits had been renewed only in such cases where the vehicle owners had voluntarily made applications for the purpose. The RTOs/ARTOs had not made any exercise to review the permit registers periodically to identify the defaulters. Consequently, cases of non-recovery, short recovery were detected as below:

- 126 permits, due for renewal during 2003-04 to 2007-08, had not been renewed, resulting in non-recovery of permit fee of Rs. 6.09 lakh.

Based on the above sample, the most likely estimate of non-recovery of permit fee for the State as a whole for the years 2003-04 to 2007-08 is Rs. 89.94 lakh.

- In 550 cases<sup>13</sup>, Rs. 2.26 lakh was recovered short on account of renewal fee.

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<sup>12</sup> Jammu, Srinagar, Lakhanpur (Kathua), Udhampur, Budgam, Kupwara, Anantnag, Pulwama and Kargil

<sup>13</sup> Includes 295 cases of short recovery (Rs 44675.00) due to application of un-notified reduced rates

Based on the above test check, the most likely estimates of short recovery of permit fee for the State as a whole during 2003-04 to 2007-08 is Rs. 22.41 lakh.

- In case of 55 vehicles route permits were not obtained by the vehicle owners resulting in non-recovery of Rs. 4.50 lakh.

Based on above test check, the most likely estimates of non-recovery due to un-issued permits for the State as a whole for the years 2003-04 to 2007-08 is Rs. 55.22 lakh.

After the cases were pointed out, eight<sup>14</sup> auditee units stated (May/June/July 2008) that the permits would be renewed when presented by the vehicle owners. The department actually failed to identify and book the defaulters.

#### **6.2.7.3 Fitness/inspection of vehicles**

The provisions of the MV Act and Rules made thereunder provide that a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness. As per the rule, fitness certificate granted under the Act in respect of a newly registered transport vehicle is valid for two years and is required to be renewed every year thereafter on payment of the prescribed fee applicable to the category of the vehicle. However, if the owner fails to produce the vehicle for inspection, he shall be liable to pay the full fee prescribed under Section 64 in addition to the usual fee chargeable for inspection and on payment of such fee a new certificate of fitness may be issued to the vehicle.

Audit scrutiny showed that against 2,49,129 vehicles due for inspection in 14 RTOs/ARTOs during 2003-04 to 2006-07, inspections in respect of 1,39,522 vehicles only had been conducted resulting in shortfall of 44 *per cent*. Non-inspection of the motor vehicles had not only resulted in the vehicles plying without fitness certificates but also resulted in non-recovery of Rs. 9.25 crore on account of inspection and additional fee.

After the case was pointed out, the Joint Transport Commissioner, stated (August 2008) that the concerned RTOs/ARTOs would be asked to take special measures for identification of vehicles/inspection and issuance of fitness certificates.

#### **6.2.7.4 Levy of tax**

In accordance with the provisions of the Jammu & Kashmir Motor Vehicles Taxation Act and rules made thereunder, token tax is leviable on all types of vehicles at prescribed rates and is recoverable in advance in equal quarterly instalments. Failure to pay tax by due date attracts an interest at two *per cent* per month of the tax due. Where tax due in respect of any vehicle has not been paid the department may issue notices to the vehicle owners. The tax, if not paid, can be recovered as arrears of land revenue. The payment of token tax, as a one-time measure in respect of light motor vehicles was, however, made mandatory with effect from 9 December 2005.

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<sup>14</sup> Srinagar, Lakhanpur (Kathua), Udhampur, Budgam, Kupwara, Anantnag, Pulwama and Kargil

Audit scrutiny revealed that in nine<sup>15</sup> RTOs/ARTOs, tax amounting to Rs. 81.69 lakh had not been received during the period 2003-04 to 2007-08 in respect of 2,782 vehicle owners resulting in non-recovery of token tax of Rs. 1.15 crore (including interest<sup>16</sup>).

Based on the above test check, the most likely estimates of non-recovery of token tax for the State as a whole for the years 2003-04 to 2007-08 is Rs. 9.10 crore and the total non-recovery alongwith interest is Rs. 12.81 crore.

Test check also revealed that RTO, Srinagar had made short recovery of tax amounting to Rs. 2,992 in seven cases.

After the cases were pointed out, it was stated by the auditee units that ledgers could not be maintained due to shortage of manpower in absence of which the actual recoverable tax could not be established. It was further stated that after completion of posting in tax ledgers, necessary action would be taken against the defaulters. The department had neither issued notices nor forwarded the list of defaulters to the Traffic Department for appropriate action.

## **6.2.8 Licences**

### **6.2.8.1 Issuance of conductor licences**

Under Section 29 (1) of the MV Act, read with Rule 27 (1) & (2) of the Jammu and Kashmir Motor Vehicles Rules, no person shall act as a conductor of a stage carriage unless he holds a conductor licence. Further, the Citizens Charter<sup>17</sup> also emphasised the importance of a conductor's licence. As per sub-section 5 of Section 30 of the Act, the fee for a conductor licence, and of each renewal thereof, shall be one-half of that for a driving licence.

Audit scrutiny revealed that 20,965 stage carrier vehicles had been registered by nine RTOs/ARTOs ending March 2007, however, no licences had been issued by the department. Besides violation of rules, non-issuance of licences and renewal thereof also resulted in non-realisation of Rs. 37.69 lakh.

After the case was pointed out, the concerned RTOs/ARTOs stated that necessary action in this regard would be taken.

### **6.2.8.2 Licences issued by driving institutes**

Rule 24 & 25 of CMV Rules, envisage that no person shall establish or maintain any driving school or establishment for imparting instructions for hire or reward in driving motor vehicles without a licence granted by the licensing authority. The licence so granted shall be valid for a period of five years and needs to be renewed not less than 60 days before its expiry.

<sup>15</sup> Jammu, Srinagar, Lakhanpur (Kathua), Udhampur, Budgam, Kupwara, Anantnag, Pulwama and Kargil

<sup>16</sup> Calculated upto 31-03-2008.

<sup>17</sup> A charter issued by Motor Vehicles Department to facilitate the masses to know and deal with plying of motor vehicles for availing services rendered by the Motor Vehicles Department

Audit scrutiny revealed that in RTO Jammu, licences of 11 driving institutes were not renewed for periods ranging between two and 11 years resulting in non-recovery of licence fee of Rs. 47,000. The reasons for non-recovery have not been received.

#### **6.2.8.3 Agents licence (Goods)**

As per Rule 133 and 134 of J&K Motor Vehicles Rules, agents licence for carrying goods is required to be obtained by all the transporters and is valid for one year which is required to be renewed thereafter. Scrutiny of records revealed that in Transport Commissioner's office, 70 cases of agents licences were not renewed for the last one to 11 years resulting in non-recovery of licence fee of Rs. 10.69 lakh.

After the case was pointed out, it was stated (February 2008) that the licence holders had been directed to adhere to the rules and obtain renewal well in time. The reply was not tenable as no action had been initiated by the department to either get the licences renewed for the period ranging between one and 11 years or cancel the licences of the agents.

#### **6.2.8.4 Motor Transport Service Licence**

In terms of Rule 127 of J&K Motor Vehicles Rules, no person(s)/ company/firm may engage in motor transport business individually or collectively unless a licence for the purpose has been granted to such person(s)/Company/firm by the State Transport Authority. The fee for issuance of licence under the Rule was Rs. 3,250 which was subsequently (April 1999) reduced to Rs. 2,000 without issuing formal notification by the Government.

In Transport Commissioner's office, it was noticed that though the reduction of fees to Rs. 2,000 was not notified by the Government, fee had been charged at the reduced rate of Rs. 2,000 in 81 cases resulting in short recovery of Rs. 5.28 lakh between April 2003 and March 2008. Further, in 56 cases, licences had not been renewed for the period from April 2003 to March 2008 resulting in non-recovery of licence fee of Rs. 8.35 lakh.

After the cases were pointed out, it was stated (February 2008) that the matter regarding un-notified rates has been taken up with the Government and that the security deposit at the rate of Rs. 200 per vehicle collected from each licence holder would be forfeited. The reply is not tenable as even after forfeiture of the security deposit there would be a difference of Rs. 1,050 in each case. Further, the reply was silent on the reasons as to why fees were realised at lower rates when these were not notified by the Government.

#### **6.2.9 Trade Certificate**

Under Rule 33 of the CMV Rules, dealer of a motor vehicle shall be exempt from the necessity of registration subject to the condition that he obtains a trade certificate from the RTO concerned on payment of prescribed fee and shall be valid for the period of 12 months from the date of issue or renewal thereof.

Scrutiny of the records revealed that in four<sup>18</sup> RTOs/ARTOs, in 40 cases trade certificates had not been renewed between August 2001 and March 2008 which resulted in non-recovery of fee of Rs. 46,000. Besides, no survey or inspection had been conducted from 2003-04 to 2007-08 to detect the defaulting dealers, violating the provisions of the Act.

After the case was pointed out, the Joint Transport Commissioner, stated (July 2008) that the registering authorities had been directed to identify the defaulters.

#### **6.2.10 Pollution checking centres**

In order to check the emission in vehicles, Pollution Checking Centres (PCC) were established under Rule 115 and 116 of the CMV Rules. A licence is issued to such centre at the prescribed fee of Rs. 5,000 valid for one year to be renewed before 31 March every year on payment of fee of Rs. 2,500.

Scrutiny of records of the Transport Commissioner revealed that the licences of four PCCs were not renewed for periods ranging between one and eight years resulting in non-recovery of renewal fee of Rs. 48,500. Besides, licences had been cancelled in respect of three centres against whom renewal fee of Rs. 40,500 was outstanding at the time of cancellation.

After the cases were pointed out, it was stated (February 2008) that the renewal fee/fine will be imposed when the licence holders approach the office for the said purpose. The department had actually failed to take appropriate action against the defaulters for the periods ranging between one to eight years.

#### **6.2.11 Penalties and offences**

The MV Act, provides that whoever drives a motor vehicle or causes or allows a motor vehicle to be driven carrying weight in excess of the permissible level shall be punishable with a minimum fine of Rs. 2,000 and an additional amount of Rs. 1,000 per tonne of excess load. The Act also provides for compounding of offences for carriage of excess load, by the authorised officers/authorities, by such amount as the State Government may specify in this behalf. The officer authorised by the department shall not allow such a vehicle to be removed from the place of weighment until the excess weight has been offloaded by the driver at his own risk.

Scrutiny of the records revealed that in four<sup>19</sup> RTOs, 1,28,620 vehicles were booked between April 2004 and March 2008 for over-loading. The vehicles were, however, allowed to move on payment of compounding fee only without off-loading the excess weight thereby contravening the provisions of the Act. Penalty at the minimum rate of Rs. 2,000 prescribed under the Act was also not recovered which resulted in revenue loss of Rs. 25.72 crore. Scrutiny of the records of the RTO, Lakhanpur also revealed that 10,919 over-loaded vehicles escaped notice of the Motor Vehicle Department (MVD) checkpost, Lakhanpur without paying the fine prescribed under the MV Act during the period April

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<sup>18</sup> Jammu, Kashmir, Lakhanpur and Udhampur.

<sup>19</sup> Lakhanpur, Jammu, Udhampur and Srinagar

2004 to March 2008. Failure to check the offence resulted in loss of revenue of Rs. 2.73 crore on account of minimum penalty (Rs. 2,000) and fine (Rs. 500) prescribed by the department.

After the case was pointed out, RTO Kashmir stated (January 2008) that the circular instructions to subordinate offices to enforce the provisions of MV Act/Rules had been issued. RTOs, Lakhanpur and Udhampur stated (May 2008) that the loss of revenue would be looked into and action taken would be intimated.

### **6.2.12 Internal control**

Internal control mechanism in a department is meant to ensure that its activities are carried out according to the prescribed rules and regulations and in an economical, efficient and effective manner. The control mechanism in the department is guided by Acts, rules etc. to protect the resources of the Government and ensure that revenue is realised by the Government in a systematic way. Scrutiny revealed lapses in adhering to these rules as discussed below.

#### **6.2.12.1 Cash Book**

Jammu and Kashmir Financial Code stipulates that the departmental receipts collected during the day should be credited into the treasury on the same day. It also stipulates that all monetary transactions should be entered in the cash book as soon as they occur under an attestation by the head of the office or an authorised officer in token of check. The totals of the cash book should be checked by a person other than the writer of the cash book. Test check of RTOs/ARTOs revealed that:

- Against an amount Rs. 76,555 collected in 30 cases, Rs. 2,630 only had been accounted for in the cash book resulting in short accountal and eventual non-remittance of Rs. 73,925 into the treasury detailed as under:

**Table: 6.2.2**

Sl. No	Name of the office	No. of cases	Amount collected (Rs.)	Amount accounted for (Rs.)	Short accountal/non-remittance (Rs)
1.	RTO Srinagar	1	4,000	400	3,600
2.	ARTO Kupwara	11	12,030	220	11,810
3.	ARTO Anantnag	5	4,370	-	4,370
4.	ARTO Pulwama	13	56,155	2,010	54,145
<b>Total</b>		<b>30</b>	<b>76,555</b>	<b>2,630</b>	<b>73,925</b>

- It was seen in three ARTOs, that route permits had been issued/renewed in 31 cases by recording fictitious receipt numbers in the permit registers resulting in loss of Rs. 83,260. Reply, though called for in audit, was not furnished.

After this was pointed out, the Joint Transport Commissioner, stated (July 2008) that the RTOs would be directed to look into the matter to take appropriate action.

Besides, in RTO Srinagar, wrong totaling of cash book had resulted in short accountal/non-remittance of Rs. 6,040 as detailed below:

**Table: 6.2.3**

Sl. No	Date	Actual amount (Rs)	Amount accounted for (Rs)	Short accountal/non-remittance (Rs)
1.	01.04.2006	4,98,145	4,93,855	4,290
2.	03.04.2006	3,31,020	3,30,620	400
3.	13.03.2006	93,675	93,075	600
4.	14.04.2006	1,32,195	1,31,445	750
	<b>Total</b>	<b>10,55,035</b>	<b>10,48,995</b>	<b>6,040</b>

Thus, lack of proper check by the RTOs/ARTOs, though envisaged under rules, resulted in short accountal of Rs. 1.63 lakh.

#### **6.2.12.2 Administrative inspection**

Administrative inspection of a subordinate office is required to be conducted periodically by the next higher authority so as to exercise necessary checks and controls over the resources and functioning of office/divisions. Administrative inspection of RTOs and ARTOs had not ever been conducted by the Transport Commissioner although the same has been pointed out by audit through audit inspection reports.

#### **6.2.12.3 Internal audit**

The department had not created any internal audit cell for conducting internal audit of RTOs/ARTOs nor has the same been conducted by the Director of Audit, Finance Department so far.

#### **6.2.12.4 Public Grievance Cell**

Public grievance cell is a bench mark for assessing the success of an entity which is to be properly manned and monitored.

Test check of records, however, revealed that no such cell has been established to redress the grievance of the public.

#### **6.2.13 Conclusion**

The performance of the department with regard to motor vehicles tax was poor as the department failed to recover registration renewal fees, permit renewal fee, penalty on account of non-inspection and non-recovery of licence fee for issue of licence to conductors.

There was lack of co-ordination between the departments resulting in non-recovery of passenger tax. The internal control of the system was also weak.

#### **6.2.14 Recommendations**

- Immediate steps need to be taken to refer the defaulting vehicle owners to law enforcement agencies so that the dues as pointed out are recovered.

- A viable mechanism need to be devised to have a co-ordination between various wings and with other departments so that those vehicles which avoid payment of tax are not allowed to ply on roads or leave the State without payment of tax.
- Internal control of the department needs to be strengthened so that all the rules provided in the financial code are adhered to.

### 6.3 Information Technology Audit of Computerisation in Transport Department, Government of Jammu and Kashmir.

#### Highlights

- **Absence of a time frame in implementation of software resulted in delay in project implementation.**  
(Paragraph: 6.3.7)
- **Inadequate control environment adversely affected functioning of the system.**  
(Paragraph: 6.3.12)
- **Absence of application controls resulted in low assurance regarding completeness and reliability of database.**  
(Paragraphs: 6.3.13.1, 6.3.13.4, 6.3.13.7)
- **Check/control mechanism was not in place resulting in registration of vehicle on fraudulent/duplicate Insurance Cover Notes.**  
(Paragraph: 6.3.13.6)

#### 6.3.1 Introduction

Assessment, levy and collection of taxes, fees and fines on motor vehicles are governed in the state under the provisions of Motor Vehicles Taxation Act, 1957, Central Motor Vehicles Act 1988, Central Motor Vehicle Rules, 1989 and Jammu and Kashmir Motor Vehicle Rules, 1991 alongwith various notifications issued by the State Government from time to time. Computerisation under a comprehensive e-governance solution for the transport sector in J&K was approved (March 2005) by the Ministry of Communication and Information Technology (GOI) under National e-governance Action Plan (NeGAP). The project objectives included implementation of SARTHI<sup>20</sup> and VAHAN<sup>21</sup> software packages, earlier designed and developed by NIC, Delhi.

#### 6.3.2 Objectives of computerisation

The computerisation in Transport Department was undertaken to prevent leakage of revenue and to enable various regional transport offices to check the driving licenses, registration certificates and permits throughout the country in an efficient manner, thereby strengthening the regulatory functions of such authorities. Department of Road Transport and Highway (DRTH), GOI instructed (January 2001) all the states to adopt a standardised data format and software for the purpose of issuing driving licenses and registration of motor vehicles and maintaining their databases so that a national register of motor vehicles and driving licenses could be prepared and their integration at the national level.

<sup>20</sup> Software package for all the front end and back end processing for issuing Learner license, Driver license and conductor license

<sup>21</sup> Software package for issuing vehicles' registration, permits, fitness, enforcement and tax demands etc.

### **6.3.3 Organisational set up**

The State Motor Vehicles Department is headed by the Director General, Transport under the administrative control of the Commissioner/Secretary, Transport Department. There are three Regional Transport Officers (Jammu, Lakhanpur and Srinagar) and 11 Assistant Regional Transport Officers (Badgam, Anantnag, Pulwama, Kupwara, Baramulla, Doda, Udhampur, Poonch, Rajouri, Leh and Kargil).

### **6.3.4 Audit Objectives**

The review of the department was undertaken to assess:

- the efficacy of the Transport Department's IT planning and implementation;
- whether information technology controls were adequate in different software packages being used so as to ensure integrity, reliability and completeness of data maintained in the Transport Department and
- the extent to which the overall objectives of computerisation had been achieved.

### **6.3.5 Audit Methodology**

The policies and control structures were examined with reference to the following:

- Documents relating to policies, development, implementation of computerised systems
- Testing and evaluation of application controls built in the application software running in the department
- Analytical review of data through CAATs (Computer Aided Audit Techniques) for substantive and compliance testing.
- Discussions with the Management.

### **6.3.6 Scope of audit**

The scope of audit included a review of planning, implementation and monitoring of the computerisation process at the Office of the Director General of Transport and examination of existing controls in IT applications and other activities in five RTOs/ARTOs<sup>22</sup>. The review was conducted between January 2008 and April 2008 and covered the period from the date of implementation (August 2005) of the programme up to March 2008.

### **Audit findings**

#### **6.3.7 Project implementation**

The administrative approval for computerising the Transport Department was accorded by GOI in March 2005. Grant-in-aid of Rs. 1.29 crore was sanctioned for the project which was to be implemented through NIC by 31 March 2006. The

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<sup>22</sup> RTO Jammu, RTO Lakhanpur, RTO Srinagar, ARTO Badgam, ARTO Udhampur

hardware was to be procured through NICSI<sup>23</sup>. The department started (May 2005) implementation of the project through NIC's state unit at 10<sup>24</sup> locations. Beginning with the pilot site of RTO Lakhanpur, the implementation was to be done in two phases ( Phase I: seven sites were to be covered by October 2005 and three sites out of ten were to be completed under Phase II by March 2006).

Audit observed that except for the pilot site, the department could not implement the project at any of the sites identified for coverage under Phase-I by March 2006. Out of seven sites identified to be covered under Phase-I, five sites had been completed after delays ranging between 5 and 15 months. The remaining two sites of Phase-I and three sites<sup>25</sup> of Phase-II were yet to be computerised (August 2008).

An amount of Rs. 32.68 lakh (out of Rs. 1.29 crore) which was transferred (November 2005) to the MVD for site preparation, purchase of generator sets, furniture, consumable and backlog data entry of old records could not be utilised upto March 2008 due to non-utilisation/revalidation. With the result the implementation suffered.

In reply the department stated (October 2008) that the administrative department had been requested to revalidate sanction for Rs. 25.12 lakh (after spending Rs. 7.46 lakh) required for preparation of sites. As and when the same is received, the sites shall be got prepared and requisite software shall be launched in the remaining five sites.

Audit also observed that backlog data entry had not been completed as the tenders floated (March 2007) for the purpose had been finalised belatedly, in February 2008. In reply, the department stated (October 2008) that backlog data entry was under process in their Jammu Office as work had already been allotted to the successful tenderers.

### **6.3.8 Under-utilisation of IT Systems**

Audit observed under-utilisation of the system in five locations where the project had been implemented. Although the VAHAN system is capable of managing information relating to a permit and its validity, including interstate aspects, enforcement, etc. these aspects had not been computerised so far in any of the RTOs, resulting in under-utilisation of the processing capabilities of the system. In reply, the department stated (October 2008) that steps were presently underway for implementation of permit module.

Audit observed (March 2008) that in ARTO Budgam, only the VAHAN package was being utilised whereas the SAARTHI package had not been implemented. It was also observed that taxes were being collected manually and subsequently fed

<sup>23</sup> National Informatics Centre Services Inc.

<sup>24</sup> RTO Lakhanpur, RTO Jammu, ARTO Udhampur, Transport Commissioner Jammu, RTO Srinagar/ARTO Badgam, ARTO Leh/ Kargil, Transport Commissioner Srinagar (Phase-I) and ARTO Rajouri/Poonch, ARTO Anantnag/Pulwama, ARTO Baramulla/Kupwara ( Phase-II)

<sup>25</sup> ARTO Rajouri/Poonch, ARTO Anantnag/Pulwama, ARTO Baramulla/Kupwara (3 sites involving 6 ARTO/RTOs)

into a stand alone computer installed at another location at NIC's district unit. The installed system was also being used by the NIC and the Election Department, which posed a threat to the database of the Transport Department. In reply (April 2008) it was stated that hardware received (April 2007) was yet to be installed and make-shift arrangement had been made by the NIC in the Deputy Commissioner's office. In October 2008, the department further stated that RTO had been directed to get the hardware installed in the office of the ARTO Budgam and shift the data from the office of the NIC Budgam.

### **6.3.9 Inadequacies in software**

Audit scrutiny revealed following deficiencies in software and data.

- There was no provision in the system to assess the arrears of road tax and to generate a list of defaulters.
- There was no provision in the system to work out fines for delayed payments of road tax or registration of vehicles.
- There was no provision in the system to generate list of defaulters in case of vehicles plying without renewal of fitness certificates.
- The system lacked provision for accounting of compounding fee<sup>26</sup> and other recoveries made by Motor Vehicle inspector/ Assistant Motor Vehicle Inspector during field checking.
- There was no provision in the software for recording of stolen vehicles at the request of owner or on the complaint of police

In reply, the department pointed out (October 2008) that the matter with respect to above issues had been taken up with the NIC.

### **6.3.10 Non-issuance of smart cards**

The Department of Road Transport and Highways, GOI instructed (December 1999 and January 2001) all the States to adopt smart cards for issuance of licenses and registration certificates so that a national register of motor vehicles, readable throughout the country, could be prepared and leakage of revenue could be prevented. It was, however, seen in audit that the department did not issue smart cards despite possessing necessary technical infrastructure for issuance of smart cards, thereby defeating the objectives of the scheme. In reply (February 2008) the department stated that steps to introduce smart card based driving Licenses had been initiated and the requisite Keys<sup>27</sup> from the NIC had also been received (October 2007).

### **6.3.11 Non maintenance of a centralised database**

Audit observed that the project had been implemented as stand alone packages in the computerised offices, without linking them to a common database in State Wide Area Network thereby jeopardising creation of a national database of vehicles remains unrealised. In reply, the department stated (October 2008) that

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<sup>26</sup> Fee collected from drivers/violators for violation of provisions of M.V. Act.

<sup>27</sup> Key provides Personal Digital Certificates to authorised users.

steps were afoot for interconnectivity of RTOs with the Commissioner Office for which a proposal had already been submitted to the Government.

### **6.3.12 General controls**

Audit observed that the department had not framed, documented and implemented any policy to ensure confidentiality, reliability and availability of data. Absence of an IT policy and a security policy resulted in the following weak or non-existent physical and logical access controls, non-allocation of roles and responsibilities and unauthorised customisation of software as detailed below:

#### **6.3.12.1 Documentation**

Audit observed (March 2008) that no technical documentation like record definitions, data organisation, data flow, etc. was available with the department. User, operation and system manuals were also not available with the department for any of the software modules developed by the NIC Delhi, with the result system support or updation would not be possible in-house or through any other agency. In reply, the department stated (October 2008) that the matter had been taken up with the NIC.

#### **6.3.12.2 Physical access/environmental controls**

Physical and environmental controls are aimed at ensuring that the assets of the project are not put to any risk. To achieve it, measures are required to be taken prior to implementation of a project. It was, however, observed that:

- There was no separate and secure room for server/UPS in three<sup>28</sup> out of five RTO/ARTO offices audited. The server and data entry terminals had not been safeguarded from unauthorised access, making the system and data vulnerable to loss.
- There was no antivirus software loaded in any of the servers with the result the server at RTO Lakhanpur and Srinagar was found virus infected, leaving the data imperiled. The department stated (October 2008) that directions had been issued to RTOs to procure and install Anti-Virus software and install these in the systems.
- There existed no annual maintenance contract for UPS, servers, and printers etc. to safeguard against breakdowns. It was seen in audit that there was output failure from UPS at RTO Lakhanpur resulting in frequent abnormal shutdown of server. In reply (March 2008) the department stated that a proposal for negotiating AMC was under consideration.
- It was also observed that no standby/backup servers were installed in any of the five RTO offices visited, to ensure resumption of the work in case of server failure due to fault or crash. In reply, the department stated (October 2008) that providing back up servers to all the RTOs were under consideration by the department.

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<sup>28</sup> RTO Jammu, ARTO Udhampur, ARTO Badgam

### **6.3.12.3 Allocation of roles and responsibilities**

In order to exercise control over passwords and backend usage, the department was to train and nominate staff as Database and Systems Administrators. It was observed that the department had not nominated any Data Base/Systems Administrators, with the result that the department remained dependent on NIC for day-to-day management of software etc. The department stated (October 2008) that due to shortage of trained staff the DBAs/SAs could not be nominated and now the department was taking steps for training the employees to handle entire operations and a proposal had been submitted to the Government for providing technical staff.

### **6.3.12.4 Business continuity/disaster recovery plan**

Audit observed (February 2008) that no formal back up policy had been formulated. There was no documented business continuity and disaster recovery plan with the department. The department while accepting the audit observation stated (January 2008) that formulation of a BCP was under consideration.

### **6.3.12.5 Inventory management**

A centralised consolidated inventory in respect of the hardware procured by the department and also details of hardware received from NICS and inventories purchased prior to implementation of VAHAN and SAARTHI and distributed to various RTOs/ARTOs, had not been maintained to exercise control over the custody and movement of inventory. No physical verification had been carried out by the department.

In reply the department stated (October 2008) that the matter was under examination and audit would be informed of the outcome.

## **6.3.13 Application Controls**

### **6.3.13.1 Unreliable and incomplete database**

Rule 47 of Central Motor Vehicles Act 1988, provides for registration of vehicles which contains information about vehicles in 33 fields. Data analysis of owner database in VAHAN package, however, showed that data capture was partial even in crucial fields. Vital details like insurance, dealer's name, purchase date, address, and engine numbers and PAN/GIR number had been left blank in five RTOs, as tabulated below:

**Table 6.3.1**

	<b>Jammu</b>	<b>Lakhanpur</b>	<b>Udhampur</b>	<b>Srinagar</b>	<b>Budgam</b>
<b>Total No. of vehicles registered</b>	<b>42,738</b>	<b>4,504</b>	<b>1,817</b>	<b>13,114</b>	<b>2,966</b>
Purchase date	111	04	04	45	1
Address	347	125	50	103	16
Engine number	347	125	84	103	16
PAN	42,738	4,504	1,817	13,114	2,966

Analysis of the data further showed that:-

- In RTO, Jammu, the date of fitness of four vehicles was shown as being prior to the date of registration.
- In RTO, Lakhanpur, the date of registration of one vehicle was shown prior to the date of purchase.
- Database of road tax of two<sup>29</sup> RTOs revealed that details of 'tax from' and 'tax upto' had been shown as '01-01-1900' in case of five vehicles.
- A single registration number<sup>30</sup> was found against two owners at RTO, Lakhanpur indicating that the system was also accepting duplicate entries in fields.

Lack of validation checks and entering incomplete data had rendered the databases of the RTOs unreliable, thereby defeating the purpose of computerisation. The department replied (October 2008) that the matter was being examined and outcome would be intimated to audit.

### 6.3.13.2 Incorrect application of rates of road tax

As per rules framed under the Central Motor Vehicles Act, every motor vehicle using public roads is subject to levy of token tax<sup>31</sup> at the rates prescribed by the State for goods and passenger vehicles on the basis of their laden weight and seating capacity, respectively.

It was, however, seen that the front-end data entry screens provided for payment of token tax in case of goods vehicles, the system applied rates from masters on the basis of unladen weight instead of laden weight resulting in incorrect application of rates of road tax. The details of 1,859 cases of short/excess levy of tax which were also verified from the manual records are tabulated in *Appendix-6.3.1*.

Audit further observed that in 2,543 other cases in two RTOs<sup>32</sup>, short levy of token tax, due to incorrect application of rates in Masters, was made good by collection through manual interventions and entered under "Fine". Such incorrect information gives rise to the risk of generating wrong MIS reports because of unreliability of data capture.

### 6.3.13.3 Variation in the rates of fitness fee charged by RTOs

A comparison of application data of VAHAN relating to fitness fee of five<sup>33</sup> Regional Transport Offices (RTOs) revealed that there was variation in the rate of fitness fee being charged for various categories of vehicles in the RTOs. While the prescribed fee of Rs. 100 was being charged as fitness fee under LMV and LGV category of vehicles in four RTO/ARTOs<sup>34</sup>, Rs. 200 was being charged

<sup>29</sup> RTO Jammu, RTO Lakhanpur

<sup>30</sup> JK08A 7788

<sup>31</sup> Tax levied on Motor Vehicles for using public roads.

<sup>32</sup> RTO Jammu 2486, RTO Lakhanpur 57

<sup>33</sup> RTO Srinagar, RTO Jammu, RTO Lakhanpur, ARTO Budgam, ARTO Udhampur

<sup>34</sup> RTO Srinagar, RTO Jammu, ARTO Budgam, ARTO Udhampur

against same categories of vehicles in another RTO<sup>35</sup>. This was indicative of lack of a centralised mechanism to monitor and implement the business rules in computerised system regarding applicable fee structure. The department did not furnish any reply (October 2008).

#### **6.3.13.4 Outstanding tax**

Rules framed under the Jammu and Kashmir Motor Vehicle Act, 1951 and Central Motor Vehicles Act, provide that tax in respect of commercial goods and passenger vehicles is payable annually or quarterly at rates according to the laden weight and seating capacity/vehicle class respectively. Failure to pay the tax within the prescribed time attracts penalty depending upon the extent of delay.

An analysis (February/March 2008) of VAHAN database of RTOs showed that there was an outstanding tax liability of Rs. 56.53 lakh against 3,247 commercial vehicles as per the VAHAN database as tabulated at *Appendix-6.3.2*.

Audit observed that RTOs were not utilising the system to detect defaulter vehicles so as to issue demand notices to the vehicle owners. In reply RTO Budgam stated (April, 2008) that the fee/tax was received manually. This implied that RTO was not relying on the computerised database and that the entries made in the database were incomplete. The reply was silent about non-monitoring of outstanding road tax through the VAHAN package. In reply, the department stated (October 2008) that the matter was being examined and outcome would be intimated to audit.

#### **6.3.13.5 Delayed registration of vehicles**

The State Motor Vehicle Act, 1951, read with Central Motor Vehicles Act, 1988, provides that an application for registration of motor vehicle is to be made within one month from the date of taking delivery of the vehicle. Failure whereof could attract fine of Rs. 100. An analysis of databases of five<sup>36</sup> RTO/ARTOs coupled with manual verification in test check revealed that 17,181 vehicles were registered after a period of one month without realising any fine from the defaulters, resulting in revenue loss of Rs.17.18 lakh to the department as tabulated at *Appendix-6.3.3*.

#### **6.3.13.6 Duplicate and fraudulent Insurance Cover Notes**

According to Section 146 of the Motor Vehicles Act, 1988 no person shall use, except as a passenger, or cause or allow any other person to use, a motor vehicle in a public place, unless there is in force, in relation to the use of the vehicle by that person or other person, as the case may be, a policy of insurance complying with the requirements of Chapter XI of the Act.

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<sup>35</sup> RTO Lakhanpur

<sup>36</sup> RTO Jammu, RTO Lakhanpur, RTO Srinagar, ARTO Budgam, ARTO Udhampur

Analysis of insurance database of five audited RTOs revealed 4,707<sup>37</sup> cases in which there was recurrence of multiplicity of a single insurance cover note number ranging between 2 and 123, suggesting that one insurance cover note was being illegally used by two or more vehicles. The results of data analysis were cross-checked with manual records in ARTO Budgam and RTO Srinagar. Test check of manual records of insurance companies<sup>38</sup> confirmed use of fake insurance cover notes by vehicle owners. Test check at two RTOs revealed that in six cases the same cover note had been used by photocopying and prefixing/suffixing of additional digits to the original cover note number and in 10 cases<sup>39</sup>, the forms had not been issued by the Insurance Company and had been fraudulently prepared.

Moreover, in 58<sup>40</sup> cases, the cover note number field had either been left blank or bogus insurance cover note numbers had been recorded. While accepting that there was no valid check in the software to ensure single use of insurance cover note, it was stated (April 2008) in reply that the software needed to be updated by the NIC. In October 2008, however, the department further stated that the matter was being examined and outcome shall be intimated to audit.

#### **6.3.13.7 Duplicate Engine/Chassis Number**

Chassis Number and Engine Number are unique identification marks of a vehicle. It was seen that in four RTO/ARTOs, 3,509<sup>41</sup> vehicles had duplicate engine Number and 16 vehicles had duplicate chassis number. This indicated lack of validation checks during data entry resulting into integrity of output of system not being ensured. The department replied (October 2008) that the matter was being examined and outcome would be intimated to audit.

#### **6.3.14 Conclusion**

Lack of controls at the input stage has rendered the database incomplete. Absence of validation checks has led to duplication of records. The system lacks uniformity across all RTOs resulting in non-realisation of benefits of computerisation and incorrect tax calculation. This has also resulted in non-generation of demand notices and identifying cases of default. Inventorisation of IT assets to ensure its safeguard has been found to be deficient.

#### **6.3.15 Recommendations**

The following steps are recommended to enhance the efficiency and effectiveness of the Transport Information System.

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<sup>37</sup> RTO Jammu 3919, RTO Srinagar 370, RTO Lakhanpur 219, ARTO Budgam 55, ARTO, Udhampur 144.

<sup>38</sup> United Insurance Co and National Insurance Co

<sup>39</sup> JK01L-4123, JK01K-4742, JK01K-5994, JK01K-6297, JK01K-5365, JK01L-4052, JK01L-3775, JK01K-2894, JK01K-4283, JK01K-5407

<sup>40</sup> RTO Jammu 51, ARTO Udhampur 7

<sup>41</sup> RTO Jammu 3301, RTO Srinagar 180, ARTO Budgam 16, RTO Lakhanpur 12

- Data input validation checks need to be incorporated to enhance data reliability and prevent entry of duplicate and fraudulent data and use of fake documents. Change management controls need to be reviewed and any changes in rates of taxes and fees may be incorporated promptly to minimise chances of erroneous realisation of taxes and fees;
- Suitable password policy, security policy, backup policy and business continuity planning should be implemented and disseminate to create security awareness. The Permit Module should be implemented to ensure optimal use of the system. Masters and database structures should be uniform in all the RTOs/user offices.
- Systems should be interlinked to share the databases with each other within and outside the department including Police Department. Physical verification of hardware/software for the period prior to March 2005 and thereafter need to be undertaken and accountal of equipment ensured.

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**Audit Paragraphs**


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**Finance Department****(Commercial Taxes)****6.4 Irregular exemption from payment of sales tax**

<b>Failure to detect the concealment of purchases made by two industrial units resulted in irregular exemption of sales tax of Rs. 46.89 lakh.</b>
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The Government notifications issued on 20 August 1998 and 31 January 2004 provided for exemption from payment of general sales tax on the sale of finished goods manufactured by the industrial units registered with the Industries and Commerce Department. However, the dealers were required to maintain a correct and regular account of purchase of goods including raw materials as also to file returns of sales regularly. Any dealer found guilty of concealing his turnover or furnishing inaccurate particulars thereof was not entitled to any exemption for the year in which such offence was committed or for subsequent years.

**6.4.1** Test check of the records of the assessing authority (AA), commercial tax circle, Budgam in January 2007 revealed that an industrial unit<sup>42</sup> disclosed turnover of Rs. 1.27 crore during the year 2003-04 and claimed exemption of sales tax payable thereon. The AA while finalising the assessment in August 2005 accepted the returned turnover and allowed exemption from payment of tax of Rs. 5.34 lakh accordingly. Audit scrutiny of the purchase statements revealed that the dealer actually purchased goods valued at Rs. 87.78 lakh during the year from outside the State against which he disclosed an amount of Rs. 83.76 lakh in the trading account submitted alongwith the return. The dealer thus concealed the particulars of purchases and was not eligible for grant of exemption on payment of tax. Failure of the AA to detect the concealment of turnover resulted in irregular exemption of tax of Rs. 11.68 lakh<sup>43</sup>.

After the case was pointed out, the AA reassessed the dealer (February 2008) and withdrew the benefit of exemption from payment of sales tax on turnover of Rs. 131.50 lakh and raised the demand of Rs. 11.71 lakh<sup>44</sup>. The dealer has filed an appeal before the Deputy Commissioner, Commercial Tax (Appeals) against the order. A report on further development has not been received (August 2008).

The matter was reported to the Government in July 2008, their reply has not been received (August 2008).

**6.4.2** Test check of the records of the assessing authority (AA), commercial tax circle, Budgam in January 2007 also revealed that another industrial unit<sup>45</sup>

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<sup>42</sup> Dealing in manufacture of gates, grills, angle iron posts and roof trusses.

<sup>43</sup> Tax: Rs. 5.52 lakh, Interest: Rs. 6.16 lakh

<sup>44</sup> Tax: Rs. 5.52 lakh, Interest: Rs. 6.19 lakh

<sup>45</sup> Dealing in manufacture of voltage stabilizers, invertors, UPS, heat convectors and assembling of black and white TVs.

disclosed turnover of Rs. 1.35 crore<sup>46</sup> during the years 2003-04 and 2004-05 and claimed exemption of sales tax payable thereon. The AA while finalising the assessment in December 2004 and August 2005 accepted the returned turnover and allowed exemption from payment of tax of Rs. 17.06 lakh<sup>47</sup> accordingly. Audit scrutiny of the assessment records of the dealer revealed that the dealer actually purchased goods valued at Rs. 1.30 crore<sup>48</sup> during these years from outside the State against which he disclosed an amount of Rs. 1.24 crore<sup>49</sup> in the trading account submitted alongwith the return. The dealer thus concealed the particulars of purchases and was not eligible for grant of exemption on payment of tax. Failure of the AA to detect the concealment of turnover resulted in irregular exemption of tax of Rs. 35.21 lakh<sup>50</sup>.

After this was pointed out (January 2007), the AA reassessed (March 2008) the dealer and withdrew the benefit of exemption and reassessed sales tax on turnover of Rs. 1.43 crore<sup>51</sup> and raised the demand of Rs. 32.88 lakh<sup>52</sup>. The reasons for short levy of interest of Rs. 2.33 lakh against the dealer has been taken up with the department. The dealer has filed an appeal before the Deputy Commissioner Commercial Tax appeals against the reassessment order. A report on further development has not been received (August 2008).

The matter was referred to the Government in July 2008; their reply has not been received (September 2008).

#### **6.5 Short levy of tax and loss of revenue**

**Failure of the AA Commercial Tax Circle 'E' Srinagar to determine correct taxable turnover of a dealer and apply correct rates of tax on the sales made to Government departments resulted in short levy of tax and interest of Rs. 1.26 crore and loss of Rs. 86.42 lakh due to time barring.**

The Jammu and Kashmir General Sales Tax Act, (J&KGST Act) 1962 and the rules made thereunder, provide that the dealer shall furnish a correct and complete return of the turnover alongwith the copies of manufacturing account, trading account, profit and loss account and balance sheet, if any, to the AA. The AA after verifying its correctness shall assess the amount of tax due from the dealer. Further, the Act also provides that no assessment or re-assessment proceedings for charging the escaped turnover of any year to tax shall be made after the expiry of eight years from the end of the year to which it relates or one year from the end of the year in which the notice is served whichever is later.

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<sup>46</sup> 2003-04: Rs. 67.70 lakh, 2004-05: Rs. 67.73 lakh.

<sup>47</sup> 2003-04: Rs. 8.53 lakh, 2004-05: Rs. 8.53 lakh.

<sup>48</sup> 2003-04: Rs. 66.69 lakh, 2004-05: Rs. 63.28 lakh.

<sup>49</sup> 2003-04: Rs. 65.64 lakh, 2004-05: Rs. 57.87 lakh.

<sup>50</sup> 2003-04 (tax: Rs. 8.68 lakh, interest: Rs. 9.85 lakh), 2004-05 (tax: Rs. 9.28 lakh, interest: Rs. 7.40 lakh).

<sup>51</sup> 2003-04: Rs. 68.86 lakh, 2004-05: Rs. 73.64 lakh.

<sup>52</sup> 2003-04 (tax: Rs. 8.68 lakh, interest: Rs. 8.24 lakh), 2004-05 (tax: Rs. 9.28 lakh, interest: Rs. 6.68 lakh).

Audit scrutiny (April 2007) of the records in Commercial Tax circle 'E' Srinagar revealed that a dealer dealing in sale of timber had reflected the taxable sales of Rs. 313.64 crore<sup>53</sup> in his trading account during the years 1997-98 to 2001-02. The AA while finalising the assessment in May 2003 determined the taxable sales of the dealer as Rs. 307.61 crore<sup>54</sup>. Underassessment of taxable sales of Rs. 6.03 crore was due to inadmissible discount allowed to the dealer during these years. Further during the accounting years 1999-2000 to 2001-02 the dealer collected tax at the rate of 6.3 per cent on sales of Rs. 8.24 lakh made to Government departments but in the assessment orders the tax was charged at the rate of 4.2 per cent. Underassessment of sales and application of incorrect rates of tax resulted in short levy of tax and interest aggregating Rs. 2.13 crore<sup>55</sup> out of which Rs. 86.42 lakh pertaining to the accounting years 1997-98 and 1998-99 turned out to be non-recoverable due to bar of limitation for initiating the assessment proceedings on the escaped turnover of these years.

After the case was pointed out in April 2007 the AA stated (October 2007) that the proceedings to raise the additional demand of Rs. 86.42 lakh on the escaped sales of Rs. 2.71 crore during 1997-98 and 1998-99 could not be initiated due to bar of limitation and added that no recovery was possible. The AA reassessed the dealer for the years 1999-2000 to 2001-02 and raised (October 2007) an additional demand of Rs. 1.30 crore<sup>56</sup> (tax: Rs. 42.02 lakh; interest: Rs. 87.99 lakh) against the dealer on concealed sales of Rs. 3.32 crore as well as sales of Rs. 7.08 lakh made to Government departments, out of which principal amount of Rs. 42.02 lakh had been remitted (November 2007).

Thus, failure of the AA Commercial Tax circle 'E' Srinagar to disallow the discount claimed by a dealer and determine his correct taxable turnover as well as to apply correct rates of tax on the sales made to the Government departments resulted in short levy of tax and interest of Rs. 1.26 crore<sup>57</sup> and loss of Rs. 86.42 lakh due to time barring.

The matter was referred to Government/department in March 2008; the Commissioner Commercial taxes accepted (May 2008) that no action could be taken for accounting years 1997-98 and 1998-99; however, against the liability of Rs. 1.30 crore raised against the dealer, Rs. 42.02 lakh have been deposited by the dealer.

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<sup>53</sup> 1997-98: Rs. 47.75 crore; 1998-99: Rs. 58.79 crore; 1999-2000: Rs. 58.14 crore; 2000-01: Rs. 71.25 crore (excluding sales turnover of Rs. 10.60 crore due to totaling mistake, admitted by AA); 2001-02: Rs. 77.71 crore

<sup>54</sup> 1997-98: Rs. 46.34 crore; 1998-99: Rs. 57.49 crore; 1999-2000: Rs. 56.89 crore; 2000-01: Rs. 70.15 crore; 2001-02: Rs. 76.74 crore

<sup>55</sup> 1997-98: Rs. 46.98 lakh; 1998-99: Rs. 39.44 lakh; 1999-2000: Rs. 52.63 lakh; 2000-01: Rs. 41.35 lakh; 2001-02: Rs. 32.34 lakh

<sup>56</sup> 1999-2000: Rs. 53.97 lakh; 2000-01: Rs. 42.60 lakh; 2001-02: Rs. 33.45 lakh

<sup>57</sup> 1999-2000: Rs. 52.63 lakh; 2000-01: Rs. 41.35 lakh; 2001-02: Rs. 32.34 lakh

## 6.6 Short levy of tax and interest due to incorrect application of rates

**Failure of the Assessing Authority (AA) Commercial Tax Circle 'E' Srinagar to apply the correct rates of tax on sales made by a dealer to a corporation, resulted in short levy of tax and interest aggregating Rs. 1.83 crore.**

The Central Sales Tax Act, 1956 provides that the tax payable by a dealer on his turnover in so far as the turnover or part thereof related to the sale of goods in the course of interstate trade or commerce not made to the Government shall be calculated at the rate of 10 *per cent* or at the rates applicable to the sale or purchase of such goods inside the appropriate state whichever is higher.

Audit scrutiny (March 2007) of the records of the Sales Tax Circle E Srinagar revealed that a dealer in the business of assembling telephone apparatus, charged sales tax at the rate of four *per cent* on the sales of Rs. 8.85 crore, made to Bharat Sanchar Nigam Limited (BSNL), a Government corporation<sup>58</sup> during the year 2001-02 on production of form D. Concessional rate of tax on these sales was not admissible, as these were not made to a Government department and the form D in their support were issued by BSNL<sup>59</sup>. The AA while assessing the dealer to tax in March 2006 failed to detect the mistake levied tax at the rate of four *per cent* instead of 12 *per cent* resulting in short levy of tax and interest aggregating Rs. 1.83 crore<sup>60</sup>.

After the case was pointed out in March 2007, the AA raised (April 2007) a demand of Rs. 1.83 crore<sup>61</sup> against the dealer.

Thus, the failure of the AA Commercial tax circle E Srinagar to apply the correct rates of tax on sales made by a dealer to a corporation, resulted in short levy of tax and interest aggregating Rs. 1.83 crore.

The matter was referred to Government/Department in February 2008, the Commissioner Commercial Taxes stated (April 2008) that the case has been referred to Deputy Commissioner (Recovery) for effecting recovery.

## 6.7 Short levy of tax, interest and penalty

**Failure of the assessing authority to take cognizance of the certificate issued by the Excise Department and determine the correct taxable turnover of a dealer resulted in short levy of tax, interest and penalty aggregating Rs. 7.71 lakh.**

The J&K GST Act, and rules made thereunder provide that every dealer shall submit a true and correct return of his turnover in such a manner as may be prescribed under the Act. The AA after verifying its correctness shall assess the amount of tax due from the dealer. Further, if a dealer fails to furnish a correct return of turnover or has concealed particulars of his turnover, the AA shall direct

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<sup>58</sup> Established on 1 September 2000.

<sup>59</sup> Concessional rate of tax was admissible only if such sales were covered by a certificate in form D issued by the Government department to whom the goods were sold.

<sup>60</sup> Tax: Rs. 70.76 lakh; Interest: Rs. 112.16 lakh.

<sup>61</sup> Tax: Rs. 70.76 lakh; Interest: Rs. 112.16 lakh.

that dealer to pay in addition to tax and interest payable by him, an amount by way of penalty not less than the amount of tax evaded but not exceeding twice the amount of tax.

Test check of the records of AA, Commercial Tax circle 'H' Jammu in August 2006 revealed that an IMFL<sup>62</sup> dealer disclosed taxable turnover of Rs. 27.58 lakh during the year 1999-2000. The AA while finalising the assessment in December 2003 rejected the return and enhanced the taxable turnover to Rs. 31.05 lakh and completed the assessment accordingly. Being aggrieved, the dealer filed an appeal before the appellate authority which directed (February 2005) the AA for *de novo* assessment. The AA accordingly reassessed the dealer in May 2005 and determined the taxable turnover as Rs. 27.58 lakh. A further verification of records, however, revealed that as per the certificate issued by the Excise Department, the dealer had sold 1.10 lakh bottles of IMFL and Beer during the year and the taxable turnover at the minimum sale rates prescribed by the Excise Commissioner amounted to Rs. 33.24 lakh. Thus, failure of the AA to take cognizance of the certificate issued by the Excise Department resulted in short levy of tax, interest and penalty aggregating Rs. 7.71 lakh<sup>63</sup> on the escaped turnover of Rs. 5.66 lakh.

After the case was pointed out, the AA reassessed the dealer in January 2008 and raised an additional demand of Rs. 7.13 lakh against the dealer.

The matter was referred to the Government/department in April 2008 and in reply it was stated (June 2008) that the recovery certificates have been issued and forwarded to the Deputy Commissioner Commercial Taxes (Recovery) for effecting recovery under the provisions of Land Revenue Act.

### 6.8 Short levy of tax, interest and penalty

**Failure of the assessing authority to cross-check the purchases disclosed by a dealer in the purchase statement and trading account with his C form consumption account resulted in short levy of tax, interest and penalty aggregating Rs. 5.73 lakh.**

The J&K GST Act and rules made thereunder provide that every dealer shall submit a true and correct return of his turnover in such a manner as may be prescribed under the Act. Further, if a person (dealer) who has without any cause failed to furnish correct return of turnover or has concealed any particulars of his turnover, the assessing authority (AA) shall direct that person to pay in addition to tax and interest payable by him, an amount by way of penalty not less than the amount of tax evaded but not exceeding twice the amount of tax.

Audit scrutiny of the records of Commercial Tax circle-I, Udhampur in January 2007 revealed that purchases of Rs. 17.23 lakh<sup>64</sup> made as per form C consumption account by a dealer dealing in sale of automobile spares, hardware, electric/electronic goods, sanitary and pipe fittings, execution of works etc. had

<sup>62</sup> Indian made foreign liquor

<sup>63</sup> Tax: Rs. 1.78 lakh, Interest: Rs. 4.15 lakh, Penalty: Rs. 1.78 lakh.

<sup>64</sup> 2001-02: Rs. 7.06 lakh, 2002-03: Rs. 10.17 lakh.

not been accounted for by the dealer in his purchase statement and trading account during 2001-02 and 2002-03. The AA, while finalising the assessment of the dealer for these two years in October 2005 and May 2006, failed to detect the mistake which resulted in concealment of turnover of Rs. 19.76 lakh<sup>65</sup> and short levy of tax, interest and penalty aggregating Rs. 5.73 lakh<sup>66</sup>.

After the case was pointed out, the AA reassessed the dealer in February/March 2007 and raised an additional demand of Rs. 5.73 lakh<sup>67</sup> against the dealer.

The case was reported to the Government/department in June 2008 and the Commissioner, Commercial Taxes stated (June 2008) that the AA had referred the arrears to the Collector for affecting the recovery under Land Revenue Act. Besides, the dealer had preferred an appeal against the order of AA which is pending before the Appellate Authority.

### **Power Development Department**

#### **6.9 Non-realisation of revenue**

#### **Non-levy of surcharge to the Gondola Cable Car Project, Gulmarg by the Power Development Department resulted in non-recovery of Rs. 8.60 lakh.**

For efficient transmission and utilisation of energy, power factor (PF) is required to be brought close to 1 (unity) by installation of capacitors in the system which can reduce the reactive power demand of inductive loads like induction motors, etc. from the system. To achieve this, the State Government had directed (February 1999) energy consumers with aggregate power load of 10-HP/KVA and above to instal suitable capacitors to raise the PF to 0.85 level. Such consumers who did not instal the requisite capacitors were liable to pay surcharge at 10 *per cent* on the assessed amount, till the capacitors of requisite capacity were installed by them.

Scrutiny of the records of the Executive Engineer (EE), EM & RE Division Sumbal, Sonwari in December 2007 revealed that though the Gandola Cable Car Project, Gulmarg had a load of 327.13 KW between April 1998 and March 2005 and 427.13 KW from April 2005 onwards, yet it did not instal the capacitors to bring the PF factor to the desired level. The Company was, therefore, liable to pay surcharge at 10 *per cent* of the assessed energy charges of Rs. 86 lakh for the period April 1999 to March 2007. It was, however, seen that the EE had failed to raise the demand of Rs. 8.60 lakh as surcharge on the assessed energy charges, on the Company.

Non-levy of the surcharge, thus, resulted in non-realisation of revenue of Rs. 8.60 lakh.

After the case was pointed out, the Assistant Executive Engineer Electric Sub-Division Tangmarg while regretting the error stated (December 2007) that

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<sup>65</sup> 2001-02: Rs. 8.55 lakh; 2002-03: Rs. 11.21 lakh.

<sup>66</sup> Tax: Rs. 1.61 lakh; Interest: Rs. 2.50 lakh; Penalty: Rs. 1.61 lakh.

<sup>67</sup> 2001-02: Rs. 2.70 lakh; 2002-03: Rs. 3.03 lakh.

the matter would be taken up with the concerned authorities. A report on further development has not been received (September 2008).

The matter was reported to the Government in September 2008; their reply has not been received.

### Transport Department

#### (Passenger Tax)

#### 6.10 Non-recovery of tax

**Lack of co-ordination between the two departments led to non-recovery of Rs. 46.97 lakh. Besides the vehicle owners of six vehicles against which Rs. 2.18 lakh were outstanding as of March 2008 managed to get their documents renewed without obtaining no objection certificate.**

As per the provisions of the Passenger Tax Act, every passenger vehicle plying within J&K State is required to deposit passenger tax at the rates notified by the Government from time to time. Information made available by the Commercial Tax Officer, Passenger Tax Circle Srinagar revealed that an amount aggregating Rs. 69.94 lakh on account of passenger tax was outstanding against 100 vehicles upto March 2006. Cross verification of the details so collected with those of the RTO Srinagar, revealed that permits had been renewed in respect of 64 vehicles against whom passenger tax of Rs. 46.97 lakh for the period from April 1988 to March 2006 was outstanding. No objection certificates (NOC) for issuance of permits had not been called for from the Commercial Taxes Department (CTD), in case of these vehicles at the time of renewal, which led to non-recovery of the tax. Lack of co-ordination between the two departments led to Rs. 46.97 lakh remaining un-recovered.

Audit scrutiny of records of the Commercial Taxes Officer (CTO), Passenger Taxes Circle, Jammu revealed that Rs. 5.25 crore<sup>68</sup> was outstanding on account of passenger tax against the vehicle owners as of March 2008. It was seen that consequent upon seizure of documents (registration certificates/route permit/fitness certificates) of defaulting vehicles in regular checks, the CTO had referred a list of 282 such vehicles to RTO Jammu for ensuring production of NOC by the vehicle owners at the time for issue of duplicate/renewal of seized documents. Cross check of documents in RTO Jammu, however, revealed that six vehicles against which passenger tax of Rs. 2.18 lakh was outstanding ending 31 March 2008 managed to get the duplicate documents issued/renewed without production of NOC, with consequent loss of revenue to the Government.

<sup>68</sup>

2003-04: Rs. 282.71 lakh, 2004-05: Rs 351.77 lakh, 2005-06:Rs 413.50 lakh, 2006-07: Rs 467.97 lakh, 2007-08: Rs. 524.86 lakh

Joint Transport Commissioner J&K stated (July 2008) that the registering authorities would be directed to seek clearance from the CTO at the time of issue of duplicate/renewal of permits.

The matter was reported to the Government in September 2008; their reply has not been received.