



**REPORT OF THE  
COMPTROLLER AND AUDITOR GENERAL OF INDIA  
FOR THE YEAR ENDED 31 MARCH 2011**

**REPORT NO. 3  
REVENUE RECEIPTS**



**GOVERNMENT OF RAJASTHAN**



**REPORT OF THE  
COMPTROLLER AND AUDITOR GENERAL OF INDIA  
FOR THE YEAR ENDED 31 MARCH 2011**

**REPORT NO. 3  
REVENUE RECEIPTS**

**GOVERNMENT OF RAJASTHAN**

## TABLE OF CONTENTS

	Reference to	
	Paragraph	Page
Preface		v
Overview		vii-xiv
<b>CHAPTER-I : GENERAL</b>		
Trend of revenue receipts	1.1	3
Response of the Government towards audit	1.2	7
Enforcing accountability and protecting the interest of the State Government	1.2.1	7
Departmental audit committee meetings	1.2.2	9
Response of the Departments	1.2.3	9
Follow-up on Audit Reports – summarised position	1.2.4	10
Compliance to the earlier Audit Reports	1.2.5	10
Mechanism to deal with issues raised by Audit	1.3	11
Position of inspection reports	1.3.1	11
Assurances given by the Departments/Government on the issues highlighted in the Audit Reports	1.3.2	12
Audit planning	1.4	13
Results of audit	1.5	13
Position of local audit conducted during the year	1.5.1	13
This Report	1.5.2	14
<b>CHAPTER-II : TAXES ON SALES, TRADE ETC.</b>		
Tax administration	2.1	17
Analysis of budget preparation	2.2	17
Trend of receipts	2.3	18
Analysis of arrears of revenue	2.4	18
Cost of VAT per assessee	2.5	19
Arrears in assessments	2.6	19
Cost of collection	2.7	20
Impact of audit reports	2.8	20
Working of Internal Audit Wing	2.9	21
Results of audit	2.10	22

	Reference to	
	Paragraph	Page
<b>Cross verification of declaration forms used in Inter State Trade and Commerce</b>	2.11	23
Other Compliance Audit observations	2.12	40
Non-observance of provisions of Acts/Rules	2.13	40
Non-levy of purchase tax	2.13.1	40
Short levy of tax on taxable turnover	2.13.2	41
Non-compliance of provisions of notifications	2.14	42
Incorrect grant of benefit of composition of tax Scheme to <i>Saraffa</i> dealers	2.14.1	43
Incorrect grant of benefit of composition of tax to brick kilns owners	2.14.2	44
Incorrect grant of benefit of composition of tax to Petroleum dealers	2.14.3	45
Incorrect grant of deferment of tax	2.14.4	47
Non-levy of Entry Tax	2.14.5	49
Non levy of interest on delayed payment of tax	2.14.6	49
<b>CHAPTER-III : TAXES ON MOTOR VEHICLES</b>		
Tax administration	3.1	53
Trend of receipts	3.2	53
Analysis of arrears of revenue	3.3	54
Cost of collection	3.4	54
Impact of audit reports	3.5	55
Working of Internal Audit Wing	3.6	56
Results of audit	3.7	57
<b>Computerisation in the Motor Vehicle Department</b>	3.8	58
Other Compliance Audit observations	3.9	70
Non-compliance of provisions of Acts/Rules	3.10	70
Taxes on motor vehicles not realised	3.10.1	70
Short realisation of lump sum tax in respect of transport vehicles	3.10.2	72
Short levy of one time tax in respect of non-transport vehicles	3.10.3	73
Temporary embezzlement and loss of interest due to lack of financial control and monitoring	3.10.4	73

<b>CHAPTER-IV : LAND REVENUE</b>		
Tax administration	4.1	77
Trend of revenue	4.2	77
Analysis of arrears of revenue	4.3	77
Impact of audit reports	4.4	78
Working of Internal Audit Wing	4.5	78
Results of audit	4.6	80
Audit observations	4.7	81
Non-compliance of provisions of Rules/Circulars	4.8	81
Short recovery of cost of land	4.8.1	82
Undue favour to firm	4.8.2	84
Short recovery of conversion charges	4.8.3	85
<b>CHAPTER-V : STATE EXCISE</b>		
Tax administration	5.1	89
Cost of collection	5.2	89
Impact of audit reports	5.3	89
Results of audit	5.4	90
<b>Levy and Collection of Excise Revenue</b>	5.5	91
<b>CHAPTER-VI : NON-TAX RECEIPTS</b>		
Introduction	6.1	115
Analysis of arrear of revenue	6.2	115
Impact of audit reports	6.3	116
Working of Internal Audit Wing	6.4	116
Results of audit	6.5	117
<b>A. Mines, Geology and Petroleum Department</b>		
Audit observations	6.6	118
Non-observance of the provisions of Acts/Rules	6.7	118
Irregular sanction of lime stone leases as minor mineral	6.7.1	119
Undue benefit to lessees	6.7.2	120
Loss of royalty	6.7.3	121
Non/short raising demand of cost of brick earth	6.7.4	123
Illegal production of minerals	6.7.5	124

Unauthorised excavation and despatch of mineral from forest	6.7.6	127
Non-raising demand of royalty and cost of mineral excavated and despatched unauthorisedly	6.7.7	128
Unauthorised excavation and use of minerals by Public Works contractors	6.7.8	129
Unauthorised mining by lessee	6.7.9	130
Unauthorised excavation/despatch of minerals	6.7.10	131
Non-adherence to Government instructions	6.7.11	133
Irregular refund/adjustment of forfeited earnest money	6.7.12	134
Undue favours to lessee	6.7.13	135
Non-levy of penalty	6.7.14	136
Non-raising demand of cost of mineral used at the stone crushers	6.7.15	136
Non-raising demand of dead rent and interest	6.7.16	137
<b>B. Colonisation Department</b>		
Incorrect calculation of cost of land in special allotment	6.8	138
<b>C. General Administration Department</b>		
Non-recovery of rent from Government Companies/ Statutory Corporations and Bank	6.9	138
<b>D. Public Works Department</b>		
Failure of Department in revising the bid price resulted in loss of revenue	6.10	140

## PREFACE

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

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

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

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

## OVERVIEW

This Report contains 28 paragraphs involving ₹ 481.29 crore and three Performance Audit on ‘Cross verification of declaration forms used in Inter State Trade and Commerce’, ‘Computerisation in the Motor Vehicles Department’ and ‘Levy and Collection of Excise Revenue’, involving revenue implications of ₹ 106.89 crore, relating to non/short levy of tax, interest, penalty etc. total ₹ 588.18 crore. Some of the significant audit findings are mentioned below:

### I. General

The total revenue receipts of the Government of Rajasthan during 2010-11 were ₹ 45,928.20 crore as against ₹ 35,385.01 crore for the year 2009-10. The revenue raised by the Government amounted to ₹ 27,052.24 crore comprising tax revenue of ₹ 20,758.12 crore and non-tax revenue of ₹ 6,294.12 crore. The receipts from the Government of India were ₹ 18,875.96 crore (State’s share of divisible Union taxes: ₹ 12,855.63 crore and grants-in-aid: ₹ 6,020.33 crore). Thus, the State Government could raise 59 *per cent* of its total revenue receipts. Taxes on Sales, trade *etc.* (₹ 11,901.24 crore), State Excise (₹ 2,861.41 crore), Stamp duty and Registration fee (₹ 1,941.04 crore), Taxes on Motor Vehicles (₹ 1,612.25 crore) and Non-ferrous Mining and Metallurgical Industries (₹ 1,929.58 crore) were the major sources of tax and non-tax revenue during 2010-11.

#### (Paragraph 1.1)

Inspection reports, issued upto December 2010, disclosed that 7,464 paragraphs involving ₹ 2,748.76 crore relating to 2,469 IRs remained outstanding at the end of June 2011 for want of compliance by various Departments. Out of the above, 1,429 paragraphs of 744 IRs involving ₹ 316.40 crore were outstanding for more than five years.

#### (Paragraph 1.2.1 and 1.3.1)

The Departments/Government accepted audit observations involving ₹ 1,122.39 crore pertaining to the Audit Reports for the years 2005-06 to 2009-10, of which ₹ 154.68 crore had been recovered till December 2011.

#### (Paragraph 1.2.5)

Test-check during 2010-11, revealed underassessment, short levy and loss of revenue amounting to ₹ 2,049.08 crore in 18,809 cases. The concerned Departments accepted underassessment and other deficiencies of ₹ 98.10 crore involved in 13,289 cases, of which 9,465 cases involving ₹ 58.83 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. The Departments recovered ₹ 23.37 crore in 3,284 cases at the instance of audit during the year 2010-11.

#### (Paragraph 1.5.1)

## **II. Taxes on Sales, Trade etc.**

A Performance Audit of 'Cross verification of Declaration Forms used in Inter-State Trade and Commerce' revealed the following:

- In 14 cases of 'C' Forms and eight cases of 'F' Forms, Assessing Authorities allowed concession/exemption of tax of ₹ 58.07 crore on belated submission of declaration forms by the dealers in contravention of the CST Act/Rules. Further in 103 cases in 18 Circle offices, demand of ₹ 18.52 crore raised was subsequently wrongly reduced on belated submission of forms without recording reasons for condonation of delay.

**(Paragraph 2.11.10.1)**

- The Assessing Authority (AA) short levied tax of ₹ 48.24 lakh and interest ₹ 15.29 lakh on Inter-State sales made without submission of 'C' forms and due to incorrect application of differential rate of tax in two cases.

**(Paragraph 2.11.10.3)**

- The AA irregularly granted exemption of tax of ₹ 23.26 crore on 'F' forms which were not supported by the evidence of dispatch of such goods which was mandatory as per the Act.

**(Paragraph 2.11.10.4)**

- The AA irregularly granted concession/exemption of tax of ₹ 10.40 lakh besides interest of ₹ 3.93 lakh on invalid declaration forms as the transactions in these declarations Form 'C' and 'F' was for more than one quarter/one month.

**(Paragraph 2.11.10.5)**

- Though the Department had detected fake forms issued by certain dealers of Bihar State to the Rajasthan State dealers, they did not cross verify forms issued by the States other than Bihar to the same Rajasthan dealers and irregularly allowed tax concession of ₹ 3.15 crore.

**(Paragraph 2.11.10.6)**

- There was evasion of tax of ₹ 4.73 lakh and interest of ₹ 2.60 lakh and penalty of ₹ 9.47 lakh was also leviable, due to suppression of purchases as well as sales by ₹ 118.33 lakh.

**(Paragraph 2.11.10.8)**

- There was evasion of tax of ₹ 31.52 lakh due to short account of Inter-State sale and evasion of tax of ₹ 8.98 lakh due to excess transfer of goods to agents, against declaration form 'F'. Besides, interest of ₹ 24.62 lakh and penalty of ₹ 80.99 lakh was also leviable.

**(Paragraph 2.11.10.9)**

- Mis-utilisation of CST declaration forms 'C' and 'F' by the dealers resulted in irregular concession/exemption of ₹ 34.15 lakh besides interest of ₹ 17.44 lakh and penalty of ₹ 67.39 lakh, as the declarations

forms were issued to the dealers other than the dealers who actually utilised them.

**(Paragraph 2.11.10.10)**

- There was evasion of tax of ₹ 4.04 lakh, due to use of fake 'C'/'F' declaration forms as these declaration forms were not issued by the AAs of those States. Besides interest and penalty was also leviable.

**(Paragraph 2.11.11)**

- There was evasion of tax, interest and penalty of ₹ 2.59 crore on 'C' forms due to absence of a system of cross verification of declaration forms, whereby the assessing authorities could not detect fake declaration forms and other irregularities.

**(Paragraph 2.11.12)**

- The Department had not put in place a system for verification of each and every Declaration Form submitted by the dealers with the database available in the TINXSYS Website before allowing exemptions/concession of tax. Further, the Department had not uploaded the information of dealers, whose registration had been cancelled, thereby depriving the Department/dealers of other States from verifying genuineness of the dealers.

**(Paragraph 2.11.13)**

Purchase tax of ₹ 16.82 lakh was not levied on goods purchased without paying tax and used in manufacture of exempted goods.

**(Paragraph 2.13.1)**

Non-levy of differential tax ₹ 73.72 lakh on *Saraffa* dealers, who had not deposited the tax upto the stipulated date of 31 March, in violation of Composition Scheme of Tax.

**(Paragraph 2.14.1)**

Due to non-compliance of condition of the scheme regarding payment of composition tax, the Department should have levied differential tax of ₹ 39.94 lakh on Petroleum dealers, which was not levied.

**(Paragraph 2.14.3)**

There was incorrect grant of excess deferment of tax ₹ 3.11 crore alongwith interest of ₹ 97.95 lakh to nine dealers under the Sales Tax Incentive Scheme for Industries.

**(Paragraph 2.14.4)**

Non-levy of entry tax on the goods purchased from other States for consumption or use in the business resulted in non-recovery of Tax of ₹ 16.50 lakh.

**(Paragraph 2.14.5)**

### **III. Taxes on Motor Vehicles**

A Performance Audit of 'Computerisation in the Motor Vehicles Department' revealed the following:

- 'VAHAN' software was implemented in 36 Regional Transport Offices (RTOs)/District Transport offices (DTOs) from October 2009 to March 2010 after a delay of 52 to 57 months since its pilot implementation in Alwar in May 2005. The phase III of 'VAHAN' is yet to be implemented in 33 sub offices. The Permit and Enforcement module of 'VAHAN' have not been initiated at all. Though the 'SARATHI' software has been implemented in seven offices out of 13 RTOs, the software is running only in four offices due to shortage of manpower. Online application for learners License and conductor License not implemented. Thus, the entire benefits of computerisation have not been achieved. The transfer of legacy data was not completed due to difference in structure base of old software's with 'VAHAN'/ 'SARATHI' software's.

**(Paragraph 3.8.8 and 3.8.8.1)**

- Due to inadequate validation controls in 'VAHAN' software, the system accepted incorrect and improbable data as dates of manufacture, pollution control, laden weight and seating capacity of vehicles. Further, there were many duplicate entries of engine number/chassis number based on back end entries without validation and key fields of insurance cover notes kept blank or fake numbers mentioned, resulting in incomplete/incorrect database in the State Register/National Register.

**(Paragraph 3.8.9)**

- There were design deficiencies in the system which needs to be corrected to avoid incorrect tax collection and data information. Further there was no provision in the system to highlight delays in issue of licence or registration etc.

**(Paragraph 3.8.10.1)**

- There was short recovery of fancy number fee of ₹ 19,200 in seven cases due to non mapping of fee for fancy number, in the software.

**(Paragraph 3.8.10.2)**

- Data on issue of licenses/permits, fees collected was not verified by the Transport Commissioner's (TC) office, resulting in non-detection of errors which could have otherwise been restricted/curtailed by executive instructions/guidelines. Internal control mechanism was ineffective for reviewing transaction data for generating logs.

**(Paragraph 3.8.11.2)**

- Due to inadequate application controls, the driving licences in 853 cases out of 1,61,754 test checked were found to be issued to non qualified applicants who were illiterate, below Class 8<sup>th</sup> or qualification not specified, or whose age was shown as zero. Improbable and wrong

entries affected the correctness of National/State Register of Licenses issued.

**(Paragraph 3.8.12.2)**

- Total hardware of ₹ 8.65 crore was sanctioned by the Central Government and the State Government for all offices but the details of supply, installation and utilisation/non-utilisation were neither monitored by the TC office nor by the National Informatics Centre, Jaipur.

**(Paragraph 3.8.14.3)**

- There was no fire detection/fighting equipment to fight any contingency in server room of any test checked office.

**(Paragraph 3.8.14.4)**

- Connectivity had not been established in DTOs Banswara and Dungarpur and RTO, Kota. There were constant disturbance in the network lines at RTO, Pali, which resulted in problems related with backup and updation of the software. Further, tax collection centres have not been connected with the TC office/RTO's.

**(Paragraph 3.8.14.5)**

- The staff and officers posted at test checked offices were neither trained nor provided user manuals because of which the staff faced difficulties in operating the system on day to day basis.

**(Paragraph 3.8.15.1)**

Motor vehicles tax and special road tax ₹ 15.73 crore were not realised from the owners of 4,946 vehicles.

**(Paragraph 3.10.1)**

Lump sum tax ₹ 42.46 lakh on transport vehicles was not realised.

**(Paragraph 3.10.2)**

Out of tax collected ₹ 18.27 crore (between January 2008 and March 2010) by the flying squads and tax collection centres, ₹ 16.90 crore were deposited late, the delay ranging from one day to 424 days. This resulted in temporary embezzlement of cash as well as loss of interest ₹ 49.65 lakh.

**(Paragraph 3.10.4)**

#### **IV. Land revenue**

Allotment of land for Hotels at inapplicable rates in violation of New Tourism Policy, 2007, resulted in potential loss of revenue of ₹ 6.50 crore to the State.

**(Paragraph 4.8.1.1)**

Cost of land ₹ 7.53 crore was not levied on three allottees (Government bodies, PSU) of land.

**(Paragraph 4.8.1.2)**

Incorrect application of DLC rate of agriculture land instead of commercial DLC rates on allotment of land to a hotel resulted in short levy of ₹ 7.04 crore.

**(Paragraph 4.8.2)**

## **V. State Excise**

A Performance Audit of ‘Levy and Collection of Excise Revenue’ revealed the following:

- The Excise Department did not have any Strategy plan/Action plan for the recovery of old arrears of revenue amounting to ₹ 218.37 crore.

**(Paragraph 5.5.8)**

- There is no provision in the Rules for the time limit for submission of the Excise Verification Certificate (EVC) and for rate of penalty to be levied for belated submission.

**(Paragraph 5.5.9.1)**

- Non-fixation of norms for minimum yield of spirit from grains led to short yield of spirit involving potential excise duty of ₹ 284.17 crore.

**(Paragraph 5.5.9.4)**

- The Department Officials charged license fee for hotels bars under “heritage hotels category” rate without certification of their status as heritage hotels from the Government of India and the State Committee. Issuing of *ad hoc* licences, in haste, cost the exchequer ₹ 1.69 crore, which needs to be recovered from the licensees.

**(Paragraph 5.5.11.1)**

- The Department failed to take action against illegal transfer/misuse of shop licenses in the guise of power of attorneys.

**(Paragraph 5.5.11.2)**

- Due to non-renewal of Bonded Warehouse license, the Department had also foregone revenue of ₹ 55 lakh during the period 2005-06 to 2009-10.

**(Paragraph 5.5.12)**

- Non-submission of EVC by the licensees within the prescribed time limit was not mentioned by the Department and neither was penal action taken under the Rules.

**(Paragraph 5.5.17.1)**

- 5,181 bank drafts for ₹ 22.89 crore received on account of security deposits, application fee and contract money were deposited late in the Govt. accounts, with delay ranging from two to 140 days, in contravention of General Financial Rules.

**(Paragraph 5.5.20)**

- In absence of any records of internal inspections at the Excise Commissioner's office there was no monitoring and strengthening of internal control mechanisms in the Department.

**(Paragraph 5.5.22)**

## **VI. Non-Tax Receipts**

### **A. Mines, Geology and Petroleum Department**

Action of the lessees to deviate the end use of mineral by supplying the lime stone to cement factories and steel plants, resulted in non-recovery of ₹ 398.47 crore.

**(Paragraph 6.7.1)**

In 17 cases, leases were granted/transferred to those lease holders who were already possessing two leases in violation of Rules. Cost of unlawfully excavated and dispatched minerals worked out to ₹ 104.88 crore resulting in undue benefit to lessees.

**(Paragraph 6.7.2)**

Non-observance of the prescribed procedure by the ME for issue of notice for termination of the contract caused a loss of ₹ 2.85 crore on a lease contract of sandstone. The ADM also incorrectly granted refund of security deposit of ₹ 1.16 crore in the same contract.

**(Paragraph 6.7.3.1)**

Cost along with royalty of ₹ 186.77 lakh was not recovered from seven kiln owners who used brick earth illegally without obtaining requisite permit and paying royalty. The Department encouraged illegal use of brick earth by incorrect calculation of demand in violation of brick earth concession Rules.

**(Paragraph 6.7.4)**

Cost and royalty of ₹ 2.74 crore for minerals excavated illegally were recoverable on excavated minerals in excess of the quantity authorised by the State Pollution Control Board. The Department had authorised despatch of minerals in violation of environmental laws.

**(Paragraph 6.7.5.1)**

The Department permitted despatch of mineral marble without approved Mining Plans, the cost of the mineral illegally excavated being ₹ 170.05 lakh.

**(Paragraph 6.7.5.2)**

Due to absence of coordination among Revenue, Transport, Forest, Police and Mines Departments, there was illegal excavation and despatch of minerals causing loss to State Government as well as huge loss to wild life and serious threat to ecological balance in the forest area and nearby populace. The cost alongwith royalty of the mineral excavated was ₹ 208.78 crore.

**(Paragraph 6.7.6.1)**

The Department had not ensured verification of actual quantity of minerals dispatched with the monthly returns of production of the lessee. Cost of

illegally dispatched mineral not recovered by the Department was ₹ 29.08 crore.

**(Paragraph 6.7.7)**

Cost of the minerals along with royalty amounting to ₹ 7.03 crore was not charged on excavated/consumed minerals by work contractors either without obtaining short term permits (STP) or more than 25 *per cent* of the quantity permitted in the STPs.

**(Paragraph 6.7.8)**

Mineral excavated and despatched during the prohibitory order was illegal, which requires recovery of cost of mineral of ₹ 2.49 crore.

**(Paragraph 6.7.9)**

Cost of illegally despatched minerals along with royalty of ₹ 2.51 crore was not charged on lessees for excavation and despatch of mineral marble and granite from outside the lease areas, by mis-using *rawannas*.

**(Paragraph 6.7.10.2)**

## **B. Colonisation Department**

Cost of special allotment of land was wrongly charged at lower rates instead of the prescribed rates in the same vicinity, resulting in short calculation of land cost by ₹ 13 lakh.

**(Paragraph 6.8)**

## **C. General Administration Department**

Non-finalisation of rent agreement by the Government with various State Government Corporations for land given to them for use in Bikaner House, New Delhi, resulted in non recovery of revenue of ₹ 48.93 lakh.

**(Paragraph 6.9)**

## **D. Public Works Department**

Non-implementation of revised rates of collection of Toll tax by the Department resulted in loss of ₹ 73.35 lakh

**(Paragraph 6.10)**

***CHAPTER-I***  
***GENERAL***

## Executive Summary: Chapter - I

<p>Trend of revenue receipts of the State Government</p>	<p>The revenue receipts of the Government of Rajasthan comprises of tax and non-tax revenue raised by the State Government, the State's share of net proceeds of divisible Union taxes and duties assigned to State and grants-in-aid received from the Government of India.</p> <p>During the year 2010-11, the revenue raised by the State Government was ₹ 27,052.24 crore, which was 59 <i>per cent</i> of the total revenue receipts. The balance 41 <i>per cent</i> of receipts (₹ 18,875.96 crore) during 2010-11 were from the Government of India.</p>
<p>Non-compliance of observations included in the Inspection Reports (IRs)</p>	<p>IRs, issued upto December 2010, disclosed that 7,464 paragraphs relating to 2,469 IRs involving ₹ 2,748.76 crore remained outstanding at the end of June 2011, of which 1,429 paragraphs of 744 IRs involving ₹ 316.40 crore were outstanding for more than five years for want of compliance.</p> <p>The first replies required to be received from the Heads of Offices within one month from the date of issue of the IRs were not received (30 June 2011) for 103 IRs issued upto December 2010. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of Offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.</p>
<p>Very low recovery by the Departments of observations pointed out by us in earlier years Audit Reports</p>	<p>In respect of Audit Reports pertaining to the years 2005-06 to 2009-10, the Government/Departments accepted audit observations involving ₹ 1,122.39 crore, of which only ₹ 154.68 crore (13.78 <i>per cent</i>) had been recovered till December 2011.</p>
<p>Remarkable improvement in Departmental Audit Committee Meetings</p>	<p>We noted that there is remarkable improvement in the number of Audit Committee Meetings held by the Departments, which led to settlement of many audit paras.</p> <p>The Government may continue these efforts and take suitable action, so that the system of audit committee meetings is further strengthened.</p>

<p>Results of Audit conducted by us in 2010-11</p>	<p>During test-check of the records of 486 units of Commercial taxes, Transport, Land Revenue, Registration and Stamps, State excise, Mining and other Departmental offices conducted during the year 2010-11 revealed under-assessments, short levy/loss of revenue <i>etc.</i> aggregating to ₹ 2,049.08 crore in 18,809 cases. During the year, the Departments concerned accepted under-assessments and other deficiencies of ₹ 98.10 crore involved in 13,289 cases of which 9,465 cases involving ₹ 58.83 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 23.37 crore in 3,284 cases during 2010-11.</p>
<p>What we have highlighted in this Chapter</p>	<p>In this Chapter, we present the trend of Revenue Receipts of the State Government, response of the Government towards audit, position of the Departmental audit committee meetings, position of compliance made by the Government to the earlier Audit Reports, mechanism in the Government/ Departments to deal with issues raised by Audit, position of outstanding paragraphs in inspection reports, action taken by the Government on the recommendations highlighted in various Performance Audits included in previous Audit Reports and results of audit conducted during the year 2010-11.</p>
<p>Our conclusion</p>	<p>A procedure and mechanism in the Government for prompt and effective response to the audit observations was not found to be in place.</p> <p>The Government should take suitable steps to introduce an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedule and also fail to take action to recover loss/outstanding revenue in a time bound manner.</p> <p>The Government may also consider setting up of an effective mechanism to ensure recoveries involved in accepted paragraphs.</p> <p>We noted that there is remarkable improvement in the number of Audit Committee Meetings held by the Departments, which may be continued.</p>

## CHAPTER-I: GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The revenue receipts of the Government of Rajasthan comprises of tax and non-tax revenue raised by the State Government, the State's share of net proceeds of divisible Union taxes and duties assigned to State and grants-in-aid received from the Government of India. The position of the receipts during the year 2010-11 and the corresponding figures for the preceding four years is mentioned below:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	11,608.24	13,274.73	14,943.75	16,414.27	20,758.12
	• Non-tax revenue	3,430.61	4,053.93	3,888.46	4,558.22	6,294.12
	<b>Total</b>	<b>15,038.85</b>	<b>17,328.66</b>	<b>18,832.21</b>	<b>20,972.49</b>	<b>27,052.24</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	6,760.37	8,527.60	8,998.47	9,258.13	12,855.63
	• Grants-in-aid	3,792.96	4,924.36	5,638.17	5,154.39	6,020.33
	<b>Total</b>	<b>10,553.33</b>	<b>13,451.96</b>	<b>14,636.64</b>	<b>14,412.52</b>	<b>18,875.96</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>25,592.18</b>	<b>30,780.62</b>	<b>33,468.85</b>	<b>35,385.01</b>	<b>45,928.20<sup>1</sup></b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>59</b>	<b>56</b>	<b>56</b>	<b>59</b>	<b>59</b>

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 27,052.24 crore) was 59 per cent of the total revenue receipts. The balance 41 per cent of receipts during 2010-11 was from the Government of India.

<sup>1</sup> For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Rajasthan for the year 2010-11. Figures under the head 0020 - Corporation tax, 0021 - Taxes on income other than corporation tax, 0022 - Taxes on agriculture income, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties and 0044 - Service tax - share of net proceeds assigned to State booked in the Finance Accounts under A - Tax revenue have been excluded from revenue raised by the State and included in State's share of divisible Union taxes in this statement.

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

(₹ in crore)

Sl. No.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Taxes on sales, trade <i>etc.</i>	6,272.15	7,345.84	8,442.02	9,681.38	11,901.24	(+) 23
	Central sales tax	448.56	404.90	462.48	482.15	728.35	(+) 51
2.	State excise	1,591.09	1,805.12	2,169.90	2,300.48	2,861.41	(+) 24
3.	Stamp duty and registration fees						
	Stamps-judicial	48.84	30.61	30.61	30.47	43.07	(+) 41
	Stamps-non-judicial	863.74	1,316.41	1,137.54	1,104.79	1,522.01	(+) 38
	Registration fee	381.10	197.33	188.48	227.68	375.96	(+) 65
4.	Taxes and duties on electricity	515.88	584.23	654.05	699.99	905.81	(+) 29
5.	Taxes on motor vehicles	1,023.61	1,164.40	1,213.56	1,372.87	1,612.25	(+) 17
6.	Taxes on goods and passengers	247.60	160.61	189.87	176.10	230.69	(+) 31
7.	Other taxes on income and expenditure, tax on professions, trades, callings and employments	0.06	0.04	0.04	0.04	0.02	(-) 50
8.	Other taxes and duties on commodities and services	46.04	58.91	64.52	58.52	64.43	(+) 10
9.	Land revenue	116.71	155.29	162.52	147.66	222.17	(+) 50
10.	Other taxes	52.86	51.04	228.16	132.14	290.71	(+) 120
	<b>Total</b>	<b>11,608.24</b>	<b>13,274.73</b>	<b>14,943.75</b>	<b>16,414.27</b>	<b>20,758.12</b>	<b>(+) 26</b>

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

**Taxes on sales, trade *etc.*:** The increase (23 *per cent*) was due to proper monitoring, check on tax evasion and recovery efforts of the Department and increase in the rate of tax on some commodities.

**Central sales tax:** The increase (51 *per cent*) was due to proper monitoring, check on tax evasion and recovery efforts of the Department and increase in the rate of tax on some commodities.

**State excise:** The increase (24 *per cent*) was mainly due to more receipt from sale of foreign liquor and spirits.

**Stamp duty and registration fees:** The increase (42 *per cent*) was due to more sale of non-judicial stamps, fees increase for registering documents, court fees and increase in DLC<sup>2</sup> rates.

**Taxes and duties on electricity:** The increase (29 *per cent*) was due to more receipt of taxes on consumption and sale of electricity.

**Taxes on motor vehicles:** The increase (17 *per cent*) was mainly due to organising special campaign for achieving revenue targets, recovery of penalty from transport vehicles and increase in the rate of one time tax.

**Taxes on goods and passengers:** The increase (31 *per cent*) was due to more receipt of taxes on entry of goods in to local area.

**Land revenue:** The increase (50 *per cent*) was due to more receipt from sale of the Government assets and sale proceeds of waste land.

**Other taxes:** The increase (120 *per cent*) was due to recovery of old dues ₹ 109.31 crore.

---

<sup>2</sup> District Level Committee.

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

(₹ in crore)

Sl. No.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Interest receipts	1,072.72	1,112.43	1,195.96	1,185.45	1,276.70	(+) 8
2.	Forestry and wild life	45.24	58.30	57.74	56.35	93.20	(+) 65
3.	Non-ferrous mining and metallurgical industries	1,196.52	1,226.61	1,275.59	1,612.26	1,929.58	(+) 20
4.	Miscellaneous general services	528.28	919.72	580.33	739.30	271.19	(-) 63
5.	Major and medium irrigation	60.56	57.92	54.16	48.83	86.04	(+) 76
6.	Medical and public health	30.62	39.11	36.87	56.55	45.46	(-) 20
7.	Co-operation	22.23	27.01	18.13	21.03	16.35	(-) 22
8.	Public works	47.47	53.41	93.43	62.75	62.10	(-) 1
9.	Police	42.61	94.81	71.43	126.24	133.93	(+) 6
10.	Other administrative services	54.84	54.71	49.57	49.12	80.33	(+) 64
11.	Other non-tax receipts	329.52	409.90	455.25	600.34	2,299.24	(+) 283
<b>Total</b>		<b>3,430.61</b>	<b>4,053.93</b>	<b>3,888.46</b>	<b>4,558.22</b>	<b>6,294.12</b>	<b>(+) 38</b>

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

**Forestry and wild life:** The increase (65 per cent) was mainly due to more receipt on sale of application forms and examination fees for the recruitment of forest guards and forest products.

**Non-ferrous mining and metallurgical industries:** The increase (20 per cent) was mainly due to more receipts of minerals concession fees, rents and royalties.

**Miscellaneous general services:** The decrease (63 per cent) was mainly due to amount pertaining to the Rajasthan Poverty Fund transferred under this head during 2009-10 after deletion of section 6A from Fiscal Responsibilities and Budget Management Act, 2005 by the State Government.

**Major and medium irrigation:** The increase (76 per cent) was mainly due to more receipts of water charges from irrigation and other purposes.

**Medical and public health:** The decrease (20 per cent) was mainly due to less receipts from the Employees State Insurance Scheme.

**Co-operation:** The decrease (22 per cent) was mainly due to less receipts of audit fees and other receipts.

**Other administrative services:** The increase (64 per cent) was due to more receipts on account of services of Home Guards provided to other parties, fine and forfeitures.

**Other non-tax receipts:** The increase (283 per cent) was mainly due to more receipts on account of royalty because of enhance production of crude oil from Barmer area.

## 1.2 Response of the Government towards Audit

Audit observations are communicated to the Government to which replies are required to be furnished by them within one month. The draft paragraphs on important irregularities are forwarded to the Finance Department as well as to concerned head of the Departments with the request to furnish replies. The facts of non-receipt of replies from the Government are invariably indicated in the Audit Report. In respect of paragraphs included in the Audit Reports, the Departments are required to submit explanatory memoranda duly vetted by Audit to the State Legislature. The concerned Departments have to take necessary steps to send their action taken notes on the recommendations of the Public Accounts Committee on the Audit Reports.

### 1.2.1 Enforcing accountability and protecting the interest of the State Government

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

IRs, issued upto December 2010, disclosed that 7,464 paragraphs relating to 2,469 IRs involving ₹ 2,748.76 crore remained outstanding at the end of

June 2011 as mentioned below along with the corresponding figures for the preceding two years:

Particulars	June 2009	June 2010	June 2011
Number of outstanding IRs	2,502	2,400	2,469
Number of outstanding audit observations	6,918	6,765	7,464
Amount involved (₹ in crore)	1,391.66	2,112.69	2,748.76

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

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Amount involved (₹ in crore)
1.	Commercial taxes	Taxes/VAT on sales, trade etc.	427	1,680	344.60
		Entertainment tax, luxury tax etc.	27	27	7.29
		Electricity duty	45	72	1.64
2.	Transport	Taxes on motor vehicles	446	1,380	348.29
3.	Land revenue	Land revenue	253	388	236.69
		Land and buildings tax	11	16	0.71
4.	Registration and stamps	Stamp duty and registration fee	871	2,155	92.52
5.	State excise	State excise	164	419	141.03
6.	Mines, geology and petroleum	Non-ferrous mining and metallurgical industries	225	1,327	1,575.99
<b>Total</b>			<b>2,469</b>	<b>7,464</b>	<b>2,748.76</b>

The first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received (30 June 2011) for 103 IRs issued upto December 2010. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Accountant General in the IRs.

**We recommend that the Government may consider taking suitable steps to introduce an effective procedure for prompt and appropriate response to the audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedule and also fail to take action to recover loss/outstanding revenue in a time bound manner.**

### 1.2.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of paragraphs in the IRs. The Departments were required to conduct at least four meetings (one in each quarter) of audit committee in a year. Besides, for settlement of audit paragraphs, audit sub-committee meetings were also to be organised in the Departments. The details of the audit committee and audit sub-committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

Name of Department	Number of audit committee meetings held	Number of audit sub-committee meetings held	Number of paragraphs settled	Amount (₹ in crore)
Commercial taxes	3	13	401	155.14
Transport	4	1	19	1.72
Land revenue	1	15	116	16.46
Registration and stamps	3	13	349	9.01
State excise	3	2	12	1.99
Mines, geology and petroleum	2	2	74	104.70
<b>Total</b>	<b>16</b>	<b>46</b>	<b>971</b>	<b>289.02</b>

We noted that there is remarkable improvement in the number of audit committee meetings held by the Departments.

**The Government may continue these efforts and take suitable action, so that the system of audit committee meetings is further strengthened.**

### 1.2.3 Response of the Departments

The Finance Department issued directions to all the Departments in August 1969 to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within three weeks of their receipt. The draft paragraphs are forwarded to the Secretaries of the concerned Departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within three weeks. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Draft paragraphs proposed to be included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the Secretaries of the respective Departments between July and November 2011. Out of 89 cases (clubbed into 31 paragraphs of this report) issued, the Departments have accepted the audit observations in 39 cases.

### 1.2.4 Follow-up on Audit Reports - summarised position

According to the instructions issued by the Finance Department, all Departments are required to furnish explanatory memoranda vetted by the Audit to the Secretariat of the State Legislature in respect of paragraphs included in the Audit Reports within three months of their being laid on the table of the House.

The position of paragraphs which appeared in the Audit Reports and those pending discussion as on 31 December 2011 is given in **Annexure-A**. A total of 92 paragraphs pertaining to the period 2005-06 to 2009-10 were pending for discussion by the Public Accounts Committee.

As per the Rules and Procedures of the Public Accounts Committee of the Rajasthan State Assembly framed in 1997, the concerned Departments have to take necessary steps to send their action taken notes on the recommendations of the Public Accounts Committee on the Audit Reports within six months from the date of its presentation to the House. We observed that 125 action taken notes were outstanding as on 31 December 2011 as detailed in **Annexure-B**.

### 1.2.5 Compliance to the earlier Audit Reports

In respect of the Audit Reports pertaining to the years 2005-06 to 2009-10, the Government/Departments accepted audit observations involving ₹ 1,122.39 crore, of which ₹ 154.68 crore had been recovered till December 2011 as mentioned below:

(₹ in crore)

Year of Audit Report		Total money value	Accepted money value	Recovery made
2005-06		352.81	118.93	23.28
2006-07		315.25	254.28	6.55
2007-08		666.55	246.83	96.72
2008-09		392.71	71.80	21.63
2009-10	I*	236.00	156.27	6.50
	II**	402.85	274.28	-
<b>Total</b>		<b>2,366.17</b>	<b>1,122.39</b>	<b>154.68</b>

\* Revenue Receipts \*\* Mining Receipts

As against accepted money value of ₹ 1,122.39 crore, only ₹ 154.68 crore (13.78 per cent) were recovered during the last five years.

### 1.3 Mechanism to deal with issues raised by Audit

The action taken by the Departments/Governments on the paragraphs of IRs and Audit Reports for the preceding ten years and Performance Audits included in the Audit Reports of the last five years is mentioned below:

#### 1.3.1 Position of inspection reports

The summarised position of outstanding paragraphs of the IRs and their status as on 30 June 2011 are tabulated below:

₹ in crore)

Year	Opening balance <sup>3</sup> as on 1-7-2010			Addition during the year <sup>4</sup>			Clearance during the year <sup>5</sup>			Closing balance		
	IRs	Para- graphs	Amounts	IRs	Para- graphs	Amounts	IRs	Para- graphs	Amounts	IRs	Para- graphs	Amounts
Up to 2001-02	134	220	13.29	-	-	-	23	40	3.87	111	180	9.42
2002-03	92	143	8.95	-	-	-	18	26	0.63	74	117	8.32
2003-04	153	275	38.95	-	-	-	29	57	11.77	124	218	27.18
2004-05	242	509	184.21	-	-	-	42	108	120.52	200	401	63.69
2005-06	266	646	213.26	-	-	-	31	133	5.47	235	513	207.79
2006-07	336	867	178.20	-	-	-	29	122	20.81	307	745	157.39
2007-08	385	1,022	174.89	-	-	-	48	177	10.57	337	845	164.32
2008-09	471	1,744	482.17	-	-	-	77	400	38.25	394	1,344	443.92
2009-10	321	1,339	820.85	183	891	705.24	77	497	346.42	427	1,733	1,179.67
2010-11	-	-	-	289	1,497	491.62	29	129	4.56	260	1,368	487.06
<b>Total</b>	<b>2,400</b>	<b>6,765</b>	<b>2,114.77</b>	<b>472</b>	<b>2,388</b>	<b>1,196.86</b>	<b>403</b>	<b>1,689</b>	<b>562.87</b>	<b>2,469</b>	<b>7,464</b>	<b>2,748.76</b>

IRs issued upto December 2010 disclosed that 1,429 paragraphs of 744 IRs involving ₹ 316.40 crore were outstanding for more than five years for want of compliance.

<sup>3</sup> Opening balance reconciled during the year 2010-11.

<sup>4</sup> Audit conducted between July 2009 to June 2010 of which IRs issued during January 2010 to December 2010.

<sup>5</sup> July 2010 to June 2011.

### 1.3.2 Assurances given by the Departments/Government on the issues highlighted in the Audit Reports

#### 1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, accepted by the Departments and the amount recovered as on 31 December 2011 is mentioned below:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year <sup>6</sup>	Cumulative position of recovery of accepted cases
2000-01	44	421.94	Not available	39.29	Nil	22.54
2001-02	45	448.86	36	99.65	Nil	30.52
2002-03	46	382.52	36	220.03	Nil	62.83
2003-04	31	381.48	30	234.77	Nil	49.52
2004-05	27	276.63	23	16.14	0.08	6.15
2005-06	39	352.81	27	118.93	1.10	23.28
2006-07	41	315.25	25	254.28	3.39	6.55
2007-08	39	666.55	33	246.83	14.71	96.72
2008-09	48	392.71	33	71.80	4.74	21.63
2009-10						
I*	27	236.00	15	156.27	6.50	6.50
II**	37	402.85	32	274.28	-	-
<b>Total</b>	<b>424</b>	<b>4,277.60</b>	<b>290</b>	<b>1,732.27</b>	<b>30.52</b>	<b>326.24</b>

\* Revenue Receipts \*\* Mining Receipts

During the years from 2000-01 to 2009-10, 424 paragraphs involving ₹ 4,277.60 crore were included in the Audit Reports. The Government/Departments accepted audit observations involving ₹ 1,732.27 crore, of which ₹ 326.24 crore (18.83 per cent) only had been recovered (31 December 2011) during the last 10 years.

**We suggest that the Government consider setting up of a mechanism to ensure that recoveries are effected in case of the accepted paragraphs.**

<sup>6</sup> January 2011 to December 2011.

### 1.3.2.2 Action taken on the recommendations highlighted in various reviews

The Government is expected to take appropriate action on the accepted recommendations highlighted in various reviews conducted by the Accountant General. The status of action taken by the Government on the accepted recommendations in 10 reviews of eight Departments featured in the last five Audit Reports is shown in **Annexure-C**. The action taken by the Government includes strengthening the monitoring mechanism, issuance of fresh directions, re-examination of the matter for recovery of charges /fees *etc.*

## 1.4 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of audit observations 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 2010-11, the audit universe comprised 922 auditable units, of which 486 units were planned and audited during the year 2010-11, which is 53 *per cent* of the total auditable units. Besides the compliance audit, three performance audits were also taken up to examine the efficacy of the tax administration of these receipts.

## 1.5 Results of audit

### 1.5.1 Position of local audit conducted during the year

During test-check of the records of 486 units of Commercial Taxes, Transport, Land Revenue, Registration and Stamps, State Excise, Mining and other Departmental offices conducted during the year 2010-11 revealed under-assessments, short levy/loss of revenue *etc.* aggregating to ₹ 2,049.08 crore in 18,809 cases. During the year, the Departments concerned accepted under-assessments and other deficiencies of ₹ 98.10 crore involved in 13,289 cases of which 9,465 cases involving ₹ 58.83 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 23.37 crore in 3,284 cases during 2010-11.

## **1.5.2 This Report**

This Report contains 28 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) with financial effect of ₹ 481.29 crore and three **Performance Audits on 'Cross verification of Declaration forms used in Inter State Trade and Commerce', 'Computerisation in the Motor Vehicles Department' and 'Levy and Collection of Excise Revenue'**, involving revenue implications of ₹ 106.89 crore (total ₹ 588.18 crore). The Departments/Government have accepted audit observations involving ₹ 313.81 crore, of which ₹ 5.81 crore have been recovered. The replies in the remaining cases have not been received (December 2011). These are discussed in succeeding chapters II to VI.

***CHAPTER - II***  
***TAXES ON SALES, TRADE ETC.***

<b>Executive Summary: Chapter - II</b>	
Increase in tax collection	In 2010-11 the collections of taxes on Sales, trade etc. from Commercial Taxes Department increased by 24 <i>per cent</i> over the previous year which was attributed by the Department to increase in VAT rates, increase in the enforcement activities, amendment of the Rajasthan Value Added Tax Act and arrear collection.
Very low recovery by the Department of observations pointed out by us in earlier years	<p>During the period 2005-06 to 2009-10 we had pointed out non/short levy, non/short realisation of tax, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation of tax etc., with revenue implication of ₹ 302.12 crore in 49 paragraphs.</p> <p>Of these, the Department/Government had accepted audit observations in 31 paragraphs involving ₹ 173.97 crore but recovered only ₹ 3.45 crore in 20 paragraphs. The recovery position as compared to acceptance of objections was only two <i>per cent</i>.</p>
Internal audit	The Internal Audit Wing conducted audit of the Commercial Taxes Department on the basis of importance and revenue realisation of the concerned circle/ward. There was a shortfall in conducting audit which ranged between 15 and 40 <i>per cent</i> during the year 2007-08 to 2010-11. We noticed that the Department had not made serious efforts to settle 19,018 paragraphs of internal audit which were outstanding at the end of the year 2010-11. Further 8,944 paragraphs of internal audit reports were pending since 2005-06. Thus, the very purpose of internal audit as an internal controls measure was defeated due to inaction of the Department on internal audit findings.
Results of Audits conducted by us in 2010-11	In 2010-11, we test checked the records of 77 units relating to taxes on Sales, Trade etc. and found non/short realisation/levy of tax, interest, penalty etc. involving ₹ 327.32 crore in 1,729 cases. The Department accepted non/underassessment of tax, irregular grant of exemption, non-levy of interest and other irregularities ₹ 4.69 crore in 530 cases, of which 45 cases involving ₹ 20 lakh were pointed out by us during the year 2010-11 and the rest in earlier years. The Department recovered ₹ 2.00 lakh in the year 2010-11 at the instance of audit in six cases.
What we have highlighted in this Chapter	In this Chapter we present a Performance Audit on ' <b>Cross verification of Declaration forms used in Inter-State Trade and Commerce</b> ' involving ₹ 98.98 crore and illustrative cases of ₹ 6.20 crore selected from observations noticed during our test check of the records

	<p>relating to non/underassessment of tax, irregular grant of exemption, non-levy of interest and other irregularities in the Offices of the Commercial Taxes Department, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us in the Audit Reports for the past years, but the Department had not taken corrective action.</p>
Our conclusion	<p>The Performance Audit on Cross verification of Declaration Forms used in Inter State Trade and Commerce revealed a number of Systems and Compliance deficiencies which need correction. We have given specific recommendations to improve the administration of the Central Sales Tax Act and Rules. We have highlighted cases relating to assessment of dealers under composition of Tax Scheme, where the conditions of the scheme were not followed while giving the benefits of the Scheme.</p>
Our recommendation	<p><b>(i) that the Government strengthen the administration of the CST Act and Rules with reference to the specific recommendation given based on the Performance Audit of the 'Cross verification of Declaration Forms used in Inter State Trade and Commerce';</b></p> <p><b>(ii) administer the composition of Tax Scheme according to the strict conditions of the Scheme;</b></p> <p><b>(iii) that the Government may take timely and regular action to recover the arrears and to avoid piling of arrears;</b></p> <p><b>(iv) the Government may consider strengthening functioning of Internal Audit Wing in order to plug the leakage of revenue and comply with the provisions of the Act and Rules; and</b></p> <p><b>(v) efforts are required for recovery of accepted amount and settlement of other outstanding paragraphs.</b></p>

## CHAPTER-II: TAXES ON SALES, TRADE *ETC.*

### 2.1 Tax administration

The Commercial Taxes Department deals mainly with Value Added Tax, Central Sales Tax, Entry Tax, Luxury Tax, Entertainment Tax and Electricity Duty which are regulated by following Acts and Rules made there under:

1. Rajasthan Value Added Tax (RVAT) Act, 2003;
2. Central Sales Tax (CST) Act, 1956;
3. Rajasthan Tax on Entry of Goods into Local Areas Act, 1999 ;
4. Rajasthan Tax on Luxuries (in Hotels and Lodging Houses) Act, 1990;
5. Rajasthan Entertainments and Advertisements Tax Act, 1957; and
6. Rajasthan Electricity (Duty) Act, 1962.

The assessment, levy and collection of value added tax in Rajasthan is governed under the RVAT Act, 2003 effective from 1.4.2006. Besides, CST Act, 1956 and the rules made thereunder are also in operation for inter-state sales.

The Commissioner of Commercial Taxes is responsible for administration at the level of Department, while Secretary, Finance (Revenue) Department exercises administrative powers at the Government level. The Commissioner of Commercial Taxes is assisted by seven Additional Commissioners, 34 Deputy Commissioners, 48 Assistant Commissioners, 101 Commercial Taxes Officers and 523 Assistant Commercial Taxes Officers.

### 2.2 Analysis of budget preparation

The budget estimates and revised estimates under the head “Taxes on sales, trade *etc.*” during last five years ending 2010-11 were as under:

(₹ in crore)

Year	Budget estimates	Revised estimates	Variation excess (+) or shortfall (-)	Percentage of variation
2006-07	6,240.00	6,650.00	(+) 410	(+) 6.57
2007-08	7,676.00	7,600.00	(-) 76	(-) 0.99
2008-09	8,500.00	9,100.00	(+) 600	(+) 7.06
2009-10	10,030.00	10,200.00	(+) 170	(+) 1.69
2010-11	11,730.00	12,300.00	(+) 570	(+) 4.86

The budget estimates were prepared keeping in view inflationary trends and normal growth rate. During 2006-11, there was marginal variation ranging from (-) 0.99 to (+) 7.06 *per cent* between budget estimates and revised estimates. The fluctuation was mainly due to variation in rates of different tax on commodities.

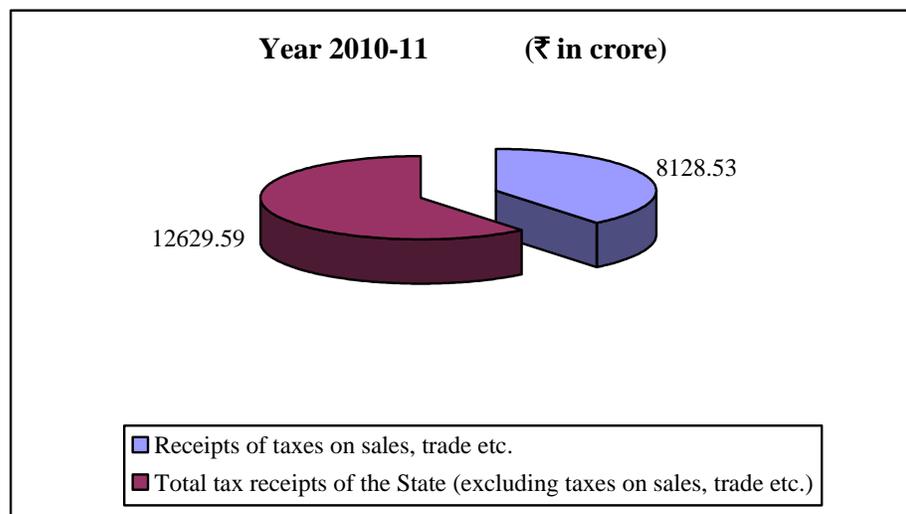
### 2.3 Trend of receipts

Actual receipts from the taxes on sales, trade *etc.* vis-à-vis revised estimates during the years 2006-07 to 2010-11 along with the total tax receipts of the State during the same period is exhibited in the following table:

(₹ in crore)

Year	Revised estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Rate of growth	Total tax receipts of the State	Percentage of actual receipts to total tax receipts
2006-07	6,650.00	6,720.71	(+) 70.71	(+) 1.06	20.15	11,608.24	57.90
2007-08	7,600.00	7,750.74	(+) 150.74	(+) 1.98	15.33	13,274.73	58.39
2008-09	9,100.00	8,904.50	(-) 195.50	(-) 2.15	14.89	14,943.75	59.59
2009-10	10,200.00	10,163.53	(-) 36.47	(-) 0.36	14.14	16,414.27	61.92
2010-11	12,300.00	12,629.59	(+) 329.59	(+) 2.68	24.26	20,758.12	60.84

Receipts of the taxes on sales, trade *etc.* during the year 2010-11 along with total tax receipts of the State (excluding receipts of taxes on sales, trade *etc.*) is shown in the following pie chart:



The receipts of the taxes on sales, trade *etc.*, remained 58 to 62 *per cent* of the total tax receipts of the State. We notice that there has been constant increase in the revenue collection under this head. The rate of growth in actual receipts after decreasing from 20.15 *per cent* in 2006-07 to 14 and 15 *per cent* during 2007-08 to 2009-10; has again gained a level of 24 *per cent* during 2010-11.

### 2.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 3,019.69 crore, of which ₹ 857.26 crore were outstanding for more than five years. The

following table depicts the position of arrears of revenue as on 31 March 2011.

(₹ in crore)

Year of arrear	Opening balance of arrears as on 1.4.2010	Amount collected during the year 2010-11	Closing balance of arrears as on 31.3.2011
Upto 2005-06	899.74	42.48	857.26
2006-07	199.47	17.04	182.43
2007-08	353.91	66.79	287.12
2008-09	1,003.92	274.89	729.03
2009-10	2,120.99	1,157.14	963.85
<b>Total</b>	<b>4,578.03</b>	<b>1,558.34</b>	<b>3,019.69</b>

The total amount of arrears upto the year 2009-10 stood at ₹ 3,019.69 crore. We noticed that almost one third of the arrears (₹ 857.26 crore) are outstanding for more than five years, which will be difficult to pursue.

**We recommend that the Government should take timely and regular action to recover the arrears and to avoid piling of arrears.**

## 2.5 Cost of VAT per assessee

The following statement shows collection of Sales Tax/Value Added Tax per assessee during the last five years:

Year	Number of Assesseees	Sales Tax/Vat Revenue (₹ in crore)	Revenue per Assessee (₹ in lakh)
2006-07	3,00,909	6,720.71	2.23
2007-08	3,19,537	7,750.74	2.43
2008-09	3,44,852	8,904.50	2.58
2009-10	3,76,688	10,163.53	2.70
2010-11	4,09,323	12,629.59	3.09

## 2.6 Arrears in assessments

The details of cases pending assessment during the years 2006-07 to 2010-11 are mentioned below:

Year	Opening balance	New cases due for assessment	Total	Cases disposed	Cases pending at the end of year
2006-07	877	2,43,771	2,44,648	2,43,618	1,030
2007-08	1,030	2,57,923	2,58,953	2,57,609	1,344
2008-09	1,344	2,54,289	2,55,633	2,55,262	371
2009-10	371	3,03,950	3,04,321	3,04,222	99
2010-11	99	3,20,298	3,20,397	3,20,382	15

The word 'assessment' used in the paragraph denotes the number of self assessment returns finalised or to be finalised by the Department. The number of cases scrutinised for tax audit and tax audit completed has not been

intimated by the Department, since no case had been selected by them for audit. Matter was taken up (August 2011) with the State Government. During our discussion with the Commissioner, Commercial Taxes, it was intimated that the Department specified (November 2009) criteria for selection of cases for VAT Audit for the financial year 2008-09. Further, the Department intimated that the tax Audit for 2008-09 has been started under Rule 47 of RVAT Rules, 2006 (for the year 2006-07 and 2007-08 neither criteria was specified nor tax audit conducted).

## 2.7 Cost of collection

The gross collection of the revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the period from 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for same period are as follows:

(₹ in crore)

Sl. No.	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage
1.	2006-07	6,720.71	60.05	0.90	0.82
2.	2007-08	7,750.74	53.76	0.70	0.83
3.	2008-09	8,904.50	70.21	0.80	0.88
4.	2009-10	10,163.53	85.90	0.85	0.96
5.	2010-11	12,629.59	86.97	0.69	NA

## 2.8 Impact of Audit Reports

During the last five years upto 2009-10, through our audit reports, we had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation of tax *etc.* with revenue implication of ₹ 302.12 crore in 48 paragraphs. Of these, the Department/Government had accepted audit observations in 31 paragraphs involving ₹ 173.97 crore and had since recovered ₹ 3.45 crore (December 2011). The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number of paragraphs	Amount
2005-06	14	100.98	10	10.02	5	1.55
2006-07	11	150.60	6	144.26	3	0.14
2007-08	5	17.88	2	0.32	2	0.32
2008-09	10	28.24	8	17.79	6	0.96
2009-10	8	4.42	5	1.58	4	0.48
<b>Total</b>	<b>48</b>	<b>302.12</b>	<b>31</b>	<b>173.97</b>	<b>20</b>	<b>3.45</b>

The recovery involved in 18 accepted cases was ₹ 7.19 crore whereas the recovery actually effected was only of ₹ 3.45 crore. In some cases demands were pending against the dealers who were not traceable while in other cases demands were pending at various stages of recovery.

**Efforts are required to speed up recovery in accepted cases and for settlement of other outstanding paragraphs.**

## 2.9 Working of Internal Audit Wing

The Financial Advisor is the head of the Internal Audit Wing. In the Department, 13 internal audit parties are working, each headed by Assistant Accounts Officer. Planning for internal audit of units are made on the basis of importance and revenue realisation. The position of last five years' internal audit was as under:

Year	Pending units	Units due for audit during the year	Total units due for audit	Units audited during the year	Units remained unaudited	Shortfall in per cent
2006-07	2	443	445	445	-	-
2007-08	0	443	443	378	65	15
2008-09	65	396	461	357	104	23
2009-10	104	393	497	299	198	40
2010-11	198	384	582	489	93	16

There was a shortfall in conducting internal audit ranging between 15 and 40 per cent during the years 2007-08 to 2010-11.

We further noticed that the Department had not made serious efforts to settle the 19,018 paragraphs of internal audit which were outstanding at the end of the year 2010-11. Year-wise break up of outstanding paragraphs is as under:

Year	Up to 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
No. of paras	8,944	1,966	2,087	2,002	2,143	1,876	<b>19,018</b>

We observed that 8,944 paragraphs of internal audit reports were outstanding upto the year 2005-06. Thus, the purpose of internal audit was defeated as the issues raised by internal audit were not paid due attention.

Internal audit is an essential part of the internal control mechanism.

**Government may consider strengthening functioning of Internal Audit Wing in order to plug the leakage of revenue and for compliance with the provisions of the Act and Rules.**

## 2.10 Results of Audit

During test-check of the records of 77 units of the Commercial Taxes Department conducted during the year 2010-11, we noticed non/under assessment of tax, irregular grant of exemption, non-levy of interest and other irregularities amounting to ₹ 327.32 crore in 1,729 cases, which broadly fall under the following categories:

(₹ in crore)			
Sl. No.	Category	Number of cases	Amount
1.	<b>Cross verification of Declaration Forms used in Inter State Trade and Commerce (A Performance Audit)</b>	1	98.98
2.	Non-assessment of taxable turnover	441	62.04
3.	Under-assessment due to irregular or incorrect allowances of deduction	112	2.33
4.	Short levy of tax due to application of incorrect rate of tax	71	4.83
5.	Irregular grant of exemption	119	11.92
6.	Non-levy of purchase tax	16	0.37
7.	Non-levy of penalty/interest	64	2.06
8.	Other irregularities	905	144.79
<b>Total</b>		<b>1,729</b>	<b>327.32</b>

During the year 2010-11, the Department accepted under-assessment and other deficiencies of ₹ 4.69 crore in 530 cases, of which 45 cases involving ₹ 20.00 lakh had been pointed out in audit during the year 2010-11 and the rest in the earlier years. The Department recovered ₹ 26 lakh in 36 cases during the year 2010-11, of which six cases involving ₹ 2.00 lakh related to the year 2010-11 and rest to the earlier years.

A Performance Audit on '**Cross verification of Declaration Forms used in Inter State Trade and Commerce**' involving ₹ 98.98 crore and few illustrative audit observations involving ₹ 6.20 crore are mentioned in the succeeding paragraphs.

## 2.11 Performance Audit on 'Cross verification of Declaration forms used in Inter-State Trade and Commerce'

### Highlights

- In 14 cases of 'C' Forms and eight cases of 'F' Forms, Assessing Authorities allowed concession/exemption of tax of ₹ 58.07 crore on belated submission of declaration forms by the dealers in contravention of the CST Act /Rules. Further in 103 cases in 18 Circle offices, demand of ₹ 18.52 crore raised was subsequently wrongly reduced on belated submission of forms without recording reasons for condonation of delay.  
**(Paragraph 2.11.10.1)**
- The Assessing Authority (AA) short levied tax of ₹ 48.24 lakh and interest ₹ 15.29 lakh on Inter-State sales made without submission of 'C' forms, due to incorrect application of differential rate of tax in two cases.  
**(Paragraph 2.11.10.3)**
- The AA irregularly granted exemption of tax of ₹ 23.26 crore on the 'F' forms which were not supported by the evidence of dispatch of such goods which was mandatory as per the Act.  
**(Paragraph 2.11.10.4)**
- The AA irregularly granted concession/exemption of tax of ₹ 10.40 lakh besides interest of ₹ 3.93 lakh on invalid declaration forms as the transactions in these declarations Form 'C' and 'F' was for more than one quarter/one month.  
**(Paragraph 2.11.10.5)**
- Though the Department had detected fake forms issued by certain dealers of Bihar State to the Rajasthan State dealers, they did not cross verify forms issued by the States other than Bihar to the same Rajasthan dealers and irregularly allowed tax concession of ₹ 3.15 crore.  
**(Paragraph 2.11.10.6)**
- There was evasion of tax of ₹ 4.73 lakh and interest of ₹ 2.60 lakh and penalty of ₹ 9.47 lakh was also leviable, due to suppression of purchases as well as sales by ₹ 118.33 lakh.  
**(Paragraph 2.11.10.8)**
- There was evasion of tax of ₹ 31.52 lakh due to short accountal of Inter State sales and evasion of tax of ₹ 8.98 lakh due to showing of excess transfer of goods to agents, against declaration form 'F'. Besides, interest of ₹ 24.62 lakh and penalty of ₹ 80.99 lakh was also leviable.  
**(Paragraph 2.11.10.9)**
- Mis-utilisation of CST declaration forms 'C' and 'F' by the dealers resulted in irregular concession/exemption of ₹ 34.15 lakh besides interest of ₹ 17.44 lakh and penalty of ₹ 67.39 lakh, as the declarations

forms were issued to the dealers other than the dealers who actually utilised them.

**(Paragraph 2.11.10.10)**

- There was evasion of tax of ₹ 4.04 lakh, due to use of fake declaration forms as these declaration forms 'C' and 'F' were not issued by the AAs of those States. Besides interest and penalty was also leviable.

**(Paragraph 2.11.11)**

- There was evasion of tax, interest and penalty of ₹ 2.59 crore on 'C' forms due to absence of a system of cross verification of declaration forms, the assessing authorities could not detect fake declaration forms and other irregularities..

**(Paragraph 2.11.12)**

- The Department had not put in place a system for verification of each and every Declaration Form submitted by the dealers with the database available in the TINXSYS Website before allowing exemptions/concession of tax. Further, the Department had not uploaded the information of dealers whose registration had been cancelled, thereby depriving the Department/dealers of other States from verifying genuineness of the dealers.

**(Paragraph 2.11.13)**

### **2.11.1 Introduction**

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

#### **Form 'C'**

As per section 8 of the CST Act, every dealer who in the course of inter-State trade or commerce, sells to a registered dealer, goods of the classes, specified in the certificate of registration of the purchasing dealer, shall pay tax at the concessional rate of four *per cent* up to 31.03.2007, three per cent w.e.f. 1 April 2007 to 31 May 2008 and thereafter two *per cent* of such turnover provided such sales are supported by declarations in form 'C'.

#### **Form 'F'**

Under section 6A of the CST Act, transfer of goods not by reason of sales by a registered dealer to any other place of his business outside the State or to his agent or principal in other States is exempted from tax on production of declaration in form 'F', duly filled in and signed by the principal officer of the other place of business or his agent or principal as the case may be, along with

the evidence of despatch of such goods. If the dealer fails to furnish such declaration, then, the movement of such goods shall be deemed, for all purposes of this Act to have been occasioned as a result of sale.

### **Penal measures**

As per Section 9 (2A) of the CST Act read with Section 61 (1) of the Rajasthan Value Added Tax (RVAT) Act, 2003, if any dealer has avoided or evaded tax in any manner, the dealer is liable to pay the penalty, a sum equal to two times of the amount of tax avoidable or evaded.

As per Section 10 of the CST Act, if any person furnishes a declaration under sub-section (1) of Section 6A or sub section (4) of Section 8, which he knows, or has reason to believe, to be false, he shall be punishable with simple imprisonment which may extend to six months, or with fine or with both. Further, as per Section 10 A of CST Act, if any person purchasing goods is guilty of an offence under clause (c)<sup>1</sup> of Section 10, the authority who granted to him or, as the case may be, is competent to grant to him a certificate of registration under this Act may, after giving him a reasonable opportunity of being heard, by order in writing, impose upon him by way of penalty a sum not exceeding one-and-a half times the tax which would have been levied under sub-section (2) of Section 8 in respect of the sale to him of the goods, if the sale had been a sale falling within that sub-section.

### **TINXSYS**

Tax Information Exchange System (TINXSYS) is a centralised exchange of all inter-State dealers spread across the various States and Union Territories (UTs) of India. The website was designed to help the Commercial Taxes Departments of various States and UTs to effectively monitor the inter-State trade. TINXSYS can be used by any dealer to verify the counter party inter-State dealer in any other State. Apart from dealer verification, Departmental officials were required to use TINXSYS for verification of Central Statutory Forms issued by other State Commercial Taxes Departments and submitted to them by the dealers in support of claim for the concessions. TINXSYS also provides MIS and Business Intelligence Reports to the Commercial Taxes Departments to monitor inter-State trade movements and enables the Empowered Committee (EC) to monitor the trends in inter-State trade.

#### **2.11.2 Selection of Topic**

Since huge amount of tax relief is allowed under the CST on the basis of declaration forms 'C' and 'F', which may lure the dealers to misuse these provisions by means of fake/false declaration forms etc., we have selected this topic for Performance Audit.

#### **2.11.3 Organisational set up**

The Commissioner of Commercial Taxes (CCT) administers the CST receipts under the administrative control of Finance Department, Government of Rajasthan. The CCT is assisted by seven Additional Commissioners,

---

<sup>1</sup> Not being a registered dealer falsely represents when purchasing goods in the course of inter-State trade or commerce that he is a registered dealer.

34 Deputy Commissioners (DC), 48 Assistant Commissioners (AC), 101 Commercial Taxes Officers (CTO) and 523 Assistant Commercial Taxes Officers (ACTO).

#### **2.11.4 Audit objectives**

We conducted the Performance Audit to get a reasonable assurance that:-

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

#### **2.11.5 Audit Criteria**

The performance of the Commercial Taxes Department was assessed against the provisions of:

- Central Sales Tax Act, 1956;
- Central Sales Tax (Registration and Turnover) Rules, 1957;
- Central Sales Tax (Rajasthan) Rules, 1957;
- Rajasthan Value Added Tax Act, 2003; and
- Rajasthan Value Added Tax Rules, 2006.

#### **2.11.6 Scope and methodology of audit**

The Performance Audit covered 20<sup>2</sup> out of 81 commercial taxes units audited as per the annual Audit Plan, covering assessments completed during 2007-08 to 2009-10 under the CST Act.

We forwarded the details of the declaration forms against which exemptions/concessions were granted to the concerned State Accountants General's offices for verification. The Accountants General verified the details from their State's Commercial Taxes Offices records. On receipt of the verification results, we made further scrutiny with the record of the concerned CTOs.

---

<sup>2</sup> Circles: 'A' Alwar, Special Bharatpur, Special Bhilwara, 'B' Bhiwadi, Chittorgarh, Jaipur: 'A', 'E', 'I', 'J', Special-IV, Special-V, Jodhpur: Special-I, 'C', Kishangarh, Special-III Kota, Ramganjmandi, Rajsamand and Udaipur: 'B', 'C, Special.

### 2.11.7 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Commercial Taxes Department and their officers and staff in providing necessary information and records to audit. An Entry Conference was held on 07 December 2010 in the office of CCT, Jaipur wherein objectives of the Performance Audit were explained. The report was forwarded to the Government and the Commissioner on September 2011. An Exit Conference was held on 23 January 2012 with Secretary Finance (Revenue) wherein the findings of the Performance Audit were discussed. The reply on Performance Audit was awaited.

### 2.11.8 Trend of revenue under CST

The details of revenue receipts for the years 2006-07 to 2010-11 in respect of CST are as given below.

(₹ in crore)

Year	Revised estimate	Actuals Receipts	Variations shortfall (-)/ excess(+)	Percentage of variation
2006-07	378.53	448.55	(+) 70.02	(+) 18.50
2007-08	415.55	404.90	(-) 10.65	(-) 2.56
2008-09	455.36	462.48	(+) 7.12	(+) 1.56
2009-10	430.36	482.15	(+) 51.79	(+) 12.03
2010-11	630.00	728.35	(+) 98.35	(+) 15.61

We noticed that there were wide variations between the revised estimates and actual receipts of the CST revenue for the years 2006-07, 2009-10 and 2010-11. During 2010-11, even after increase in revised estimates by 46 per cent, actual receipts were 16 per cent more than the estimates and 51 per cent in comparison to year 2009-10.

When we pointed out this, the Department intimated (August 2011) that due to increase in trade and commerce there were increase in receipts during 2006-07. This shows that even the revised estimates failed to capture increase in the CST. Reasons for large variations in estimates and receipts during 2009-10 and 2010-11 and wide increase during 2010-11 were not intimated.

### 2.11.9 Audit findings

#### 2.11.9.1 System deficiencies

Section 8 of CST Act, 1956 read with Rule 12 of the CST (Registration and Turnover) Rules, 1957 and Rule 17 of CST (Rajasthan) Rules, 1957 stipulates the process of custody, utilisation and maintenance of forms.

Our test check of the records revealed the following:

### **2.11.9.2 Database of samples of current and obsolete declaration forms not kept by the Department**

(i) According to Rule 17(10) of the CST (Rajasthan) Rules, 1957, the CCT may, by notification, declare that the declaration form of a particular series, design or colour shall be deemed as obsolete and invalid with effect from such date as may be specified in the notification. A copy of such notification shall be sent to other State Governments for the publication in their official gazettes.

The information requested (March 2011) by us from the CCT for the compliance of these provisions had not been provided (December 2011).

(ii) We observed that the Department did not keep samples of the colour, design and format of the forms prevailing in different States for comparison in order to identify the fake or forged declaration forms. Therefore, there was a risk of acceptance of invalid, obsolete and forged declaration forms and consequent short levy of tax.

### **2.11.9.3 Absence of database of branches of dealers**

We observed that the assessing officers did not have details of the branches of the dealers under their jurisdiction to verify the authenticity of the claims submitted by the dealers for exemption of tax on account of branch transfer. The Department did not maintain any database in respect of exemption of tax allowed on account of branch transfer/consignment sale.

### **2.11.9.4 Printing and custody of declaration forms**

Registered dealers avail concessions/exemption of tax by using the CST forms in the course of inter-State trade. It is the duty of the Department to print the CST forms with high security standards and to keep the forms in safe custody.

We observed that the Department had not issued any guidelines for printing and safe custody of the declaration forms. During Performance Audit, we noticed the following irregularities/deficiencies:-

(a) Forms were got printed by co-operative printing press instead of the Government press. The Department intimated (June 2011) that instructions for printing were issued by the General Administration Department; however, the same were not made available to Audit. Hence, compliance of these instructions could not be ensured.

(b) Paper quality of E-I/E-II forms was very poor due to which forged forms could easily be printed and even the durability of forms was questionable.

(c) The forms were not stored properly. We observed from stock register that 406 'F' forms at Central Store, Jaipur; 25 'C' forms at Chittorgarh and 175 'C' forms at Special Circle-I Jodhpur, were destroyed by termite.

(d) Central Store for declaration forms was situated in the Jaipur city in a separate building. Regarding safety of Store, audit enquiry was issued to the Department but no reply was received. Further, physical verification of store was not conducted since February 2004. Thus, possibility of theft of forms could not be ruled out.

### 2.11.9.5 Issue and accounting of declaration forms by the Department

#### (i) Non-checking of stock register by competent officers

As a general principal, the stock register of the declaration forms should be checked by the competent officer to ensure proper accounting of declaration forms. However no such instructions were issued by the Department. We observed (between November 2010 and January 2011) that stock registers were not checked by competent officers in ten<sup>3</sup> out of twenty test checked offices.

#### (ii) Irregular issuance of declaration forms

We have observed that proper receipts and issuance of declaration forms could not be ensured by the Departmental officers, as discussed below:

(a) Our scrutiny of stock register of declaration forms at DC office, Bharatpur revealed (November 2010) that despite showing 'nil' stock of 'C' forms, the Department had been issuing 'C' forms to the dealers. As on 31.01.2008, there was balance of only eight forms in the stock but Department issued 105 'C' forms during 31.01.2008 to 15.02.2008. We further noticed that form no. 1900001 to 1905000 were received on 13.02.2008 and previous balance was nil however the Department issued (26.03.2008) the 'C' forms bearing serial no. 1151751 to 1151765 (15 forms) and 1151776 to 1151800 (25 forms).

#### (b) Non-accountal of forms

Our scrutiny of the stock register of DC office, Bharatpur revealed that a new stock register for forms 'E-I/E-II' was opened and receipt of 2500 forms on 25.09.2006 was shown in the new stock register, however, the balance of 1,180 forms in old stock register as on 15.12.2006 was not carried forward in the new register resulting in unauthorised deduction of 1,180 forms from the stock register.

#### (c) Short receipt of forms

During audit of stock register of CTO Circle 'C' Udaipur, we noticed that storekeeper had recorded in the stock register that eight E-I forms (five on 15.05.2008 and three on 28.04.2009) were received short but this was not brought to the notice of the DC (Administration), Udaipur. Thus, there was possibility of misuse of these forms.

**These examples show that the maintenance of stock register was not proper. This implies that the issue entries cannot be relied upon and as such misuse of forms cannot be ruled out.**

<sup>3</sup> DC (Administration) Bharatpur and Circles: 'B' Bhiwadi; Chittorgarh; Jaipur-'J'; 'Special-IV', 'Special-V'; Jodhpur-'C', Ramganj Mandi; Rajsamand, and Udaipur-'C'.

### 2.11.9.6 Enforcement measures

Rule 16 A of the CST (Rajasthan) Rules, 1957, provides that every dealer who effects any sale in the course of inter-State trade or commerce shall furnish a Statement in Form CST 11 along with return in Form CST 1. Rule 19 of *ibid* rules provides that any person contravening any provision of these rules shall be punishable with fine which may extend to ₹ 500.

We observed (December 2010 and January 2011) during test check that 103 dealers of six circles<sup>4</sup> had not submitted form CST 11 for the inter-State sale of ₹ 467.83 crore during the years 2007-10. However, the Department did not impose penalty for non-submission of these forms.

Without submission of these forms Department could not ensure the description of goods sold, date from which RC of purchasing dealer is valid and rate of tax (CST) to be charged on the sale of ₹ 467.83 crore. It was further noticed that the Department did not impose penalty as per the provisions *ibid*.

### 2.11.10 Compliance deficiencies

#### 2.11.10.1 Irregular grant of concession/exemption on belated submission of Declaration Forms

As per rule 12(7) of the CST (Registration and Turnover) Rules, 1957, the declaration in form 'C' or form 'F' or the certificate in form 'E-I/E-II' shall be furnished to the prescribed authority within three months after the end of the period to which the declaration or the certificate relates. Provided that if the prescribed authority is satisfied that the person was prevented by sufficient cause from furnishing such declaration within the aforesaid time, that authority may allow such declaration to be furnished within such further time as that authority may permit. In the case of Kirloskar Brothers Ltd Vs State of Tamil Nadu (1999) 113 STC 496 (Mad), it was held that original assessment made by the assessing authority was final for all practical purposes and relief sought for, by the dealer as relatable to forms filed subsequent to the original order of assessment could not be granted.

(a) During test check of the assessment records of six CTOs<sup>5</sup> we noticed that while finalising the assessment, AAs had accepted 14 cases of 'C' and eight cases of 'F' forms which were submitted after the end of the prescribed period of three months with delay ranging from four to 606 days, without recording the cause for delay. This resulted in irregular concession/exemption of tax to dealers for ₹ 58.07 crore besides interest of ₹ 20.93 crore was also leviable.

<sup>4</sup> Circles: Jaipur 'I', 'A', 'Special-IV' and 'Special-V'; 'Special-I' Jodhpur and 'B' Udaipur.

<sup>5</sup> Circles: 'E', 'G', 'Special-V' Jaipur, Kishangarh, Rajsamand and Suratgarh.

(b) In 18 CTOs<sup>6</sup> we noticed that, in 103 cases demand of ₹ 18.52 crore (tax ₹ 14.34 crore and interest ₹ 4.18 crore) was reduced on submission of declaration forms by 92 assesses after assessment, without recording cause of delay, which was in-contravention of above mentioned provisions.

#### 2.11.10.2 Irregular concession on duplicate copies of 'C' forms

As per Rule 17(2) of CST (Rajasthan) Rules, 1957, a registered dealer who claims to have made sales to another registered dealer shall in respect of such claim attach to his return in form CST-I the portion marked 'Original' of the declaration form received by him from the purchasing dealer.

During test check of the records of Circle-I, Jaipur for the assessment year 2009-10 we noticed that one dealer (M/s Famous Industries) sold goods of ₹ 5.65 lakh in the course of inter-State trade against declaration forms 'C' and submitted copies of 'C' forms marked 'duplicate',

instead of copies marked 'original'. The AA, however, while finalising the assessment, allowed concession of tax on duplicate copies of these forms in contravention of the rules.

This resulted in irregular concession of tax of ₹ 0.54 lakh. Besides, interest of ₹ 0.20 lakh was also leviable.

#### 2.11.10.3 Short levy of tax on Inter-State sales due to application of incorrect rate of tax

As per Section 8 of the CST Act, every registered dealer who sells goods in the course of inter-State trade to another registered dealer shall pay tax at the concessional rate of three *per cent* w.e.f. 1.04.2007 to 31.05.2008 and two *per cent* thereafter, provided the selling dealer furnishes declarations in form 'C' in support of sales; otherwise tax is leviable at the rate applicable to the sale or purchase of such goods inside the State. As per RVAT Act, goods-Bush are chargeable to VAT at 12.5 *per cent*.

(i) During test check of the records of Special circle, Alwar, we noticed (March 2010) that one dealer (M/s Auto Bushing, Alwar) sold goods of ₹ 3.25 crore in course of inter-State trade without submitting 'C' forms in support of the aforesaid sales. However, the AA while finalising (March 2010) the assessment, charged the differential tax at the rate one *per cent* against the correct rate of difference of tax of 9.5 *per cent*. As the rate of tax on Bush is 12.50 *per cent* and not four *per cent*.

Thus, irregular assessment at the concessional rate of tax on the sales, not supported by 'C' forms, resulted in underassessment of tax of ₹ 27.59 lakh besides interest of ₹ 9.38 lakh.

<sup>6</sup> Circles: Alwar-A, Bhiwadi-B, Bhilwara-Special, Jaipur: " A, E, I, Special-IV & V, Jodhpur-Special- I, Kishangarh, Kota-Special-III, Rajsamand, Ramganj Mandi, Udaipur-B, C & special and Special-Rajasatahn.

When we pointed out (August 2010) it was intimated (November 2010) that demand of ₹ 37.52 lakh including interest, had been raised (September 2010). However, we have not received status of recovery (December 2011).

Under Section 8(2) of the CST Act, tax leviable on the inter-State sale not falling within Section 8(1) shall be at the rate prescribed by the appropriate State under the Sales Tax law of that State. The State rate of tax in Rajasthan was four *per cent* on *Vanspati Ghee*.

(ii) During test check of the assessment records of Commercial Taxes Officer, Circle B, Bhiwadi for the period 2009-10, we noticed (December 2010) that a dealer (M/s Swastik Oil Mills, Bhiwadi) made inter-State sale of ₹ 10.33 crore of *Vanaspati*

*Ghee* at the rate of one *per cent* against declaration forms 'C' during the year 2007-08. While finalising (March 2010) the assessment, the AA levied difference tax at the rate of one *per cent* for non-submission of declaration forms against the applicable difference of tax of three percent. This resulted in short levy of tax of ₹ 20.65 lakh and interest of ₹ 5.91 lakh.

When we pointed out this (January 2011), the AA intimated (January 2011) that a demand of ₹ 27.40 lakh, pertaining to tax and interest thereon had been raised (January 2011). The position of recovery has not been intimated (December 2011).

#### 2.11.10.4 Irregular exemption of tax on form 'F' without submitting evidences of dispatch of goods.

Under Section 6A of the CST Act, 1956, burden of proving that the movement of goods was occasioned by reason of transfer of such goods to any other place of his business or to his agent or principal, as the case may be and not by reason of sale, for availment of tax exemption, shall be on the dealer. For this purpose he may furnish to the AA, within the prescribed time a declaration in form 'F' duly filled and signed by the principal officer of the other place of business **along with the evidence of dispatch** of such goods and if the dealer fails to furnish such declaration, then, the movements of such goods shall be deemed for all purposes of this Act to have been occasioned as a result of sale.

We observed (November 2010 to January 2011) that it was a general practice not to submit proofs of dispatch with 'F' forms and no instructions were issued to AAs to disallow the exemption in case of violation of the provisions.

Our scrutiny of 65 'F' forms submitted by one assessee to Circle Special-III Kota revealed (November 2010) that evidences of dispatch of goods of ₹ 186.09 crore were not enclosed with the forms. The AA, however, while finalising the assessment of the dealer for the relevant year irregularly accepted these

forms. The tax exemption allowed in these cases was ₹ 23.26 crore, which required investigation.

**We recommend that the Commissioner should issue instructions to all assessing authorities to follow the provisions of the Act regarding filing of 'F' form alongwith the evidence of the dispatch of such goods.**

#### 2.11.10.5 Irregular grant of concession/exemption on invalid forms

As per Rule 12(1) of the CST (Registration & Turnover) Rules, 1957, a single declaration form 'C and E-I/II' may cover all transactions of sale, which take place in a quarter of a financial year, between the same two dealers and Rule 12(5) provided that a single declaration form 'F' may cover transfer of goods, by a dealer, to any other place of his business or to his agent or principal, as the case may be, effected during a period of one calendar month.

During test check of the assessment records of five circles<sup>7</sup> for the assessment year 2008-09 and 2009-10, we noticed (May 2010 to January 2011) that seven dealers sold goods of ₹ 2.31 crore against declaration form 'C and E-I/II'. Scrutiny of declaration forms revealed that the transaction for more than one quarter was covered in the single forms for ₹ 95.88 lakh. The assessing authorities should disallow the exemption

allowed on these forms but the AAs, while finalising the assessment of the dealers for the relevant year accepted these forms. This resulted in irregular exemption of tax of ₹ 9.32 lakh and interest of ₹ 3.55 lakh.

Further, two dealers had transferred the goods valued at ₹ 53.76 lakh against 'F' form covering transactions for more than one month of ₹ 27.10 lakh in contravention of these rules. The AA, while finalising the assessment of the dealers for the relevant year accepted these forms. This resulted in irregular exemption of tax of ₹ 1.08 lakh besides interest of ₹ 0.38 lakh.

#### 2.11.10.6 Non-verification of declaration forms with the records of other States

The CCT, vide circular no. F16(57)TAX/ VAT/ CCT/ 08/64 dated 24.04.08, issued instructions to verify all transactions supported by 'C' forms for concessional rate of tax and have taken place after 26 September 2005 and to keep the record of such verification on the assessment record of the dealer.

(a) During test check of the records of two CTOs,<sup>8</sup> we noticed (January 2011) that there was no supporting document on the file to prove that the AA has verified the CST declaration forms for the inter-State sale amounting to ₹ 19.12 crore on which concession of tax of ₹ 1.14 crore was allowed.

(b) During test check of the records of two AAs<sup>9</sup> of Bharatpur we noticed (November 2010) that in 50 cases, 'C' forms issued by the dealers of Bihar

<sup>7</sup> Alwar Circle 'B' and Special Circle; Circle Chittorgarh; Special Circle 'I' Jodhpur and Circle Kishangarh,

<sup>8</sup> Circles: Chittorgarh and 'C' Udaipur

<sup>9</sup> Special Circle, and Anti evasion.

State for ₹ 121.82 crore submitted by 30 selling dealers of Rajasthan could not be verified when sent by the Department for verification to Commercial Taxes Offices of Bihar State, for which the Department levied ₹ 15.41 crore as tax, penalty and interest. Further, it was also noticed (July 2011) that three AAs<sup>10</sup> of Jodhpur had levied difference tax of ₹ 2.85 crore and interest of ₹ 34.16 lakh on non-verified 115 forms of 35 dealers for the assessment year 2007-08 to 2009-10. Similarly AA of Anti-evasion Kota had levied difference tax of ₹ 14.18 lakh and imposed penalty of ₹ 28.36 lakh for unverified forms submitted by three dealers.

We noticed following shortcomings:

- Despite the fact that 'C' forms issued by the dealers of Bihar State could not be verified, the AAs did not take any action to verify other 'C' forms involving ₹ 119.05 crore issued by the States other than Bihar to the same Rajasthan dealers and allowed tax concession of ₹ 3.15 crore.
- Three AAs<sup>11</sup> did not impose penalty for evasion of tax and AA, Anti-evasion Kota had not charged interest on the difference tax.
- AAs had not taken action as per Section 10<sup>12</sup> of CST Act.

When we test checked/cross-verified the CST forms of these Circles we noticed evasion of tax of ₹ 1.60 lakh. Besides, interest of ₹ 0.81 lakh and penalty of ₹ 3.21 lakh was also leviable as discussed in succeeding paragraph. Further in-contravention of CST Act read with RVAT Act, three AAs had not imposed penalty of ₹ 5.70 crore on 35 dealers. Non taking of action as per Section 10 of CST Act extended moral support to the dealers who willfully evaded legitimate tax due to the State.

Thus, opportunity to find out irregularities in utilisation of declaration forms was ignored and tax, interest and penalty of ₹ 5.76 crore could not be imposed by these AAs.

#### **2.11.10.7 Cross-verification of declaration forms**

Our cross-verification of 12,976 'C' and 'F' forms<sup>13</sup> of the selling and purchasing dealers of Rajasthan State, with the assessment records of other States revealed irregularities in 133 forms involving sale/purchase of ₹ 102.53 crore and evasion of tax, interest and penalty of ₹ 5.55 crore, which are discussed in the following paragraphs. These findings are mainly based on the cross verification of details given in the original declaration forms submitted by selling dealers, utilisation certificate submitted by the purchasing dealers and issue registers of declaration forms. It is essential for the Department to investigate these cases thoroughly and take necessary action as per the law.

---

<sup>10</sup> Circles : Jodhpur: 'A', 'C' and 'D'.

<sup>11</sup> Circles: Jodhpur 'A', 'C', and 'D'.

<sup>12</sup> As per section 10 of CST Act, if any person furnishes a declaration under sub-section (1) of section 6 A or sub section (4) of Section 8, which he knows, or has reason to believe, to be false, he shall be punishable with simple imprisonment which may extend to six months, or with fine or with both.

<sup>13</sup> Purchasing dealer of Rajasthan's 'C' forms: 4495; 'F' forms 1006 and selling dealer of Rajasthan's 'C' forms 6358; 'F' forms 1117.

Further, there were 219 forms from 17 States, in which mistakes were pointed out by the other States but supporting key documents have not been received from the concerned Commercial Taxes Departments.

#### **2.11.10.8 Short accountal of goods received through use of declaration form 'F'**

Test check of records as well as cross verification of assessment records of purchasing dealers of Rajasthan State with the assessment records of transferring State of Haryana revealed that one dealer of Rajasthan under the control of Bhiwadi B circle had not accounted for the goods amounting to ₹ 118.33 lakh. Thus, dealer concealed purchases as well as sale of ₹ 118.33 lakh resulting in evasion of tax ₹ 4.73 lakh. Besides, interest ₹ 2.60 lakh and penalty of ₹ 9.47 lakh was leviable.

#### **2.11.10.9 Variation between the figures of the forms as disclosed by the selling dealer and those disclosed by the purchasing dealers**

##### **(a) Purchasing dealers of Rajasthan**

We noticed by cross verification of records that six purchasing dealers in five circles<sup>14</sup> had shown short purchase of goods of ₹ 40.75 lakh in six cases than the amount shown in the original 'C' form issued to the selling dealers of other States. The AAs while finalising the assessment could not detect the variation; this resulted in short accountal of purchases with tax effect of ₹ 2.67 lakh. Besides, interest ₹ 1.24 lakh and penalty of ₹ 5.33 lakh was leviable.

##### **(b) Selling dealers of Rajasthan**

- (i) Our cross verification of 25 'C' Forms in respect of 18 selling dealers of Rajasthan with the utilisation account of the purchasing dealers of other States revealed that the selling dealer of Rajasthan had shown sale short by ₹ 14.65 crore, which was not detected by the AAs while finalising assessments. This had resulted in evasion of tax of ₹ 28.85 lakh. Besides interest of ₹ 19.21 lakh and penalty of ₹ 57.70 lakh was also leviable.
- (ii) Our cross verification of 12 'F' Forms in respect of three transferring dealers of Rajasthan with the utilisation account of the transferee dealers of other States revealed that the Rajasthan dealers had shown excess transfer of goods by ₹ 36.57 crore, which was not detected by the AAs while finalising assessments. This had resulted in evasion of tax of ₹ 8.98 lakh. Besides, interest of ₹ 4.17 lakh and penalty of ₹ 17.96 lakh was also leviable.

<sup>14</sup> Circles: Bikaner A; Bhilwara Special; Bhiwadi B, Special-II and Circle Pali.

### 2.11.10.10 Irregular grant of concession/exemption on invalid form issued to other dealer

#### (a) Purchasing dealers of Rajasthan

We noticed during cross verification of declarations form that one dealer M/s Enexus Technologies India Ltd, Bharatpur used 'C' form for purchase of goods from the dealer of Jammu & Kashmir, which was not issued by the Department to him. This has resulted in misuse of declaration form for purchase of goods amounting to ₹ 13.11 lakh, on which irregular concession of tax of ₹ 1.80 lakh was allowed by the AA, besides interest ₹ 1.23 lakh and penalty of ₹ 2.70 lakh was also leviable.

#### (b) Selling dealers of Rajasthan

In offices of 14 AAs<sup>15</sup> our cross verification of declarations form 'C' and 'F' with the assessment records of purchasing dealers of other States revealed that in 47 cases, 24 selling dealers of Rajasthan State submitted 'C' and 'F' forms for concession of tax on the sale of goods in the course of inter-State trade which were issued to dealers other than the actual purchasing dealer to whom the sale was shown by the selling dealer.

This has resulted in irregular concession/exemption of tax of ₹ 32.35 lakh. Besides, interest of ₹ 16.21 lakh and penalty of ₹ 64.69 lakh was also leviable.

### 2.11.10.11 Evasion of tax due to goods not covered in the RC of the purchasing dealer

On cross verification of forms, we noticed (November 2010) that AA Bharatpur allowed concession to M/s Shri Bhagwati Udyog, Bharatpur on one 'C' form which was submitted by purchasing dealer of Arunachal Pradesh for purchasing of edible oil, which was not covered in the RC of that dealer. This resulted in irregular exemption of tax of ₹ 4.43 lakh. Besides, interest of ₹ 3.10 lakh and penalty of ₹ 8.85 lakh were also leviable.

### 2.11.11 Evasion of tax through use of fake Declaration Forms

If any dealer produces/issues, false/fake declaration and claims exemption/reduced rate of tax in support of these declarations, the dealer is liable to pay the penalty as per Section 61(1) of RVAT Act 2003 and under Section 10 of CST Act, if any person furnishes a declaration under sub section (4) of Section 8, which he knows, or has reason to believe, to be false, he shall be punishable with simple imprisonment which may extend to six months, or with fine or with both.

Our cross-verification of 'C' and 'F' forms pertaining of inter-State sale/transfer by the dealers/agent of Rajasthan with the utilisation account of declaration forms received through inter-State purchase/transfer by the dealers of six States<sup>16</sup> revealed that ten dealers/agent had

<sup>15</sup> Circles: Alwar A; Bharatpur A, B, Special, Anti-evasaion; Chittorgarh; Jaipur -I; Special-V; Jodhpur C; Kishangarh; Kota Special-III; Rajsamand and Udaipur C, B' Bhiwadi  
<sup>16</sup> Chhatisgarh, Nagaland, West Bengal, Maharashtra, Punjab and UP.

claimed and were allowed exemption/concessional rate of CST in 16 Forms (15 C Forms and one F Form) amounting to ₹ 1.67 crore against fake forms, which were not issued to the dealers. This resulted in short levy of CST of ₹ 4.04 lakh. Besides, interest of ₹ 2.15 lakh and penalty of ₹ 8.08 lakh was also leviable. Proceedings against these dealers under Section 10 of CST Act *ibid* should also be initiated by the concerned AAs<sup>17</sup>.

### 2.11.12 Other irregularities

On cross verification of assessment record of 9 AAs<sup>18</sup> in respect of selling dealers of Rajasthan, we noticed that in 22 'C' forms involving transaction of ₹ 34.24 crore, there were several irregularities such as irrelevant Registration Certificate (RC) number, un-traced dealer, non verified forms, cancelled RC and form not being issued to the circle etc. But AAs did not detect these irregularities and allowed concession/exemption of ₹ 70.40 lakh. Besides, interest of ₹ 47.53 lakh and penalty of ₹ 140.80 lakh was also leviable on these forms.

CCT had issued instructions (April 2008) to verify all transactions supported by CST forms for concessional rate of tax and have taken place after 26 September 2005. Due to non-compliance of the instructions AAs could not detect evasion of tax besides interest and penalty.

### 2.11.13 Non-utilisation of TINXSYS

TINXSYS website was designed to help the Commercial Taxes Departments of various States and UTs to effectively monitor the inter-State trade. Departmental officials were required to use TINXSYS for verification of Central Statutory Forms issued by other State Commercial Taxes Departments and submitted to them by the dealers in support of claim for concessions. It also provides MIS and Business Intelligence Reports to the Department to monitor inter-State trade movements and enables the EC to monitor the trends in inter-State trade.

(a) During the test check of data of cancelled dealers provided by 11 CTOs, we observed (March 2011) that information of cancelled dealers was not

<sup>17</sup> Circles: Bharatpur –'A'; 'Jodhpur -Special'-I and Jaipur- I.

<sup>18</sup> Circles: Bharatpur A; Chittorgarh; Jaipur A, E, I, J, Special-V; Kishangarh and Kota Special-III.

uploaded on TINXSYS. Results of test check are tabulated below:-

Sl. No.	Name of Circle	Total number of cancelled dealers	Dealers not found on TINXSYS	Number of cancelled dealers which were shown active dealers on TINXSYS	Could not be verified due to wrong TIN provided by CTO
1	'B' Udaipur	116	65	4	5
2	'B' Bhiwadi	3	0	3	-
3	'C' Udaipur	6	2	3	1
4	Special V Jaipur	5	1	4	-
5	Rajsamand	14	14	0	-
6	'J' Jaipur	73	10	36	-
7	Special-I, Jodhpur	11	6	2	-
8	Special-III, Kota	8	4	0	-
9	'C' Jodhpur	24	9	12	-
10	Ramganj Mandi	118	88	12	1
11	'E' Jaipur	13	2	11	-
<b>Total</b>		<b>391</b>	<b>201 (51%)</b>	<b>87 (22%)</b>	<b>7</b>

We observed that details of 51 *per cent* cancelled dealers were not uploaded on TINXSYS and 22 *per cent* cancelled dealers were shown as active dealers.

Due to non-uploading the information of cancelled dealers, the Department deprived CTOs/dealers of other States from verifying genuineness of the dealers.

(b) We noticed (October 2010) that a dealer M/s Shree Bhagwati Udyog, Bharatpur, submitted 'C' form for sale of ₹ 28.34 lakh to M/s Shankar Enterprises, Dhanbad. The AA allowed tax concession of ₹ 0.57 lakh on this 'C' form without verifying the genuineness of the dealer. When we checked the purchasing dealer on TINXSYS, it could not be verified.

(c) Test check (between November 2010 to January 2011) of 1,160 CST declarations forms of four zones<sup>19</sup> issued to selling dealers of other States revealed that 1,143 forms (98.53 *per cent*) were not uploaded on TINXSYS by concerned authorities of this State.

Thus, the objectives of this site could not be achieved by the Department.

#### 2.11.14 Non-production of records relating to cross verification of Form received from other States

Nine AAs<sup>20</sup> did not produce assessment record i.e. assessment orders, utilisation certificate submitted by purchasing dealers etc., relating to 146 declaration forms which were received from other States for verification,

<sup>19</sup> Alwar, Bharatpur, Bhilwara and Jaipur-I.

<sup>20</sup> Circles: Alwar: 'B', 'Special'; Bhiwadi: 'B', 'Special-I', 'Special-II'; Hanumangarh: 'B' and Udaipur: 'B', 'C', 'Special'.

to us (November 2010 to January 2011) during the course of Performance Audit. In absence of records, we could not verify details of these forms. Reasons for non-production of records were not intimated by the Department.

#### **2.11.15 Internal Audit**

Internal Audit Wing of an organisation is a vital component of the internal control mechanism which enables the organisation to assure itself of the degree of compliance with the prescribed systems.

We observed that Departmental manual for internal audit was not made available. No training was provided to internal audit parties for the audit of CST. Internal audit parties were also not using TINXSYS during audit.

#### **2.11.16 Conclusion**

The Performance Audit on Cross verification of Declaration forms used in Inter-State Trade and Commerce revealed a number of systems and compliance deficiencies. The Department did not keep samples of current and obsolete declaration forms of other States as well as of Rajasthan. The TINXSYS website was not utilised effectively by the Assessing Authorities. It also did not have a system of selecting transactions for cross verification of declaration forms of other States due to which the assessing officers could not detect fake/invalid forms and allowed inadmissible exemptions/reduced rates of taxes. Forms were accepted beyond the prescribed time limit for submission. Due to the absence of consolidated guidelines and prescribed checklist of points to be seen prior to acceptance of declaration forms, the assessing authorities accepted declaration forms which were not supported with evidences of transfer of goods. The internal control mechanism within the Department was weak as evident from the deficiencies pointed out in preceding paragraphs.

#### **2.11.17 Recommendations**

**We recommend that the Government may -**

- **obtain and circulate the samples of declaration forms of other States for easier identification of doubtful forms based on colour, design and series;**
- **prepare a checklist for scrutiny of genuineness of declaration forms and for allowing concession/exemption on declaration forms i.e. receipt of CST forms within prescribed time etc;**
- **prescribe criteria for selection of declaration forms for cross verification ;**
- **create a database of exemption of tax on account of branch transfer/consignment sale;**
- **the Commissioner should issue instructions to all assessing authorities to follow the provisions of the Act regarding filing of 'F' form alongwith the evidence of the dispatch of such goods; and**
- **to devise a system for uploading of details of declaration forms used on TINXSYS for verification of sale/purchase transactions.**

## **2.12 Other Compliance Audit observations**

We observed during test-check of the assessment records of sales tax/VAT in Commercial Taxes Department several cases of non-observance of provisions of Acts/Rules, non/short levy of tax/interest, incorrect computation of tax, incorrect grant of input tax credit, incorrect deferment of tax, incorrect grant of composition amount in lieu of tax liability under RVAT/CST Acts. We pointed out some of these omissions in earlier years also, but not only the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit so that occurrence of such cases can be avoided.

## **2.13 Non-observance of provisions of Acts/Rules**

The RVAT Act and Rules provides for:-

- (a) Levy of purchase tax where raw material purchased from unregistered dealer;
- (b) grant of input tax credit (ITC) in respect of purchases made by registered dealers from registered dealers within the State;
- (c) levy of reverse tax in cases where ITC was allowed wrongly;
- (d) levy of tax on taxable turnover including sale or purchases during inter-state trade; and
- (e) levy of tax at prescribed rates.

During test-check of records we noticed that some of the above provisions were not correctly observed by the assessing authorities in cases mentioned in paragraphs 2.13.1 and 2.13.2. This resulted in non/short levy/realisation of tax/interest of ₹ 31.00 lakh.

### **2.13.1 Non-levy of purchase tax**

Under Section 4(2) of the RVAT Act, every dealer who in the course of his business purchases any goods other than exempted goods in the circumstances in which no tax under sub section (1) is payable on the sale price of such goods and the goods are disposed off for the purpose other than those specified in clause (a) to (g) of sub section (1) of Section 18, shall be liable to pay tax on the purchase price of such goods at the prescribed rate. Besides, interest at 12 per cent per annum is also payable as per Section 55 of the *ibid* Act.

During test check of the assessment records of two offices (August 2010), we observed that while finalising the assessment of four dealers for the year 2006-07 and 2007-08, the assessing authorities did not levy purchase tax on the value of taxable raw material *Narma/Kapas (Cotton)* and *Maida/Flour* purchased without payment of tax and used it in the manufacture of exempted goods i.e. Certified Seeds and Bread respectively. This resulted in non-levy of

purchase tax of ₹ 16.82 lakh and interest ₹ 6.30 lakh (calculated up to March 2010) as mentioned below:

(₹ in lakh)

Sl. No.	Name of circle (No. of dealers)	Assessment year/ Month of assessment	Value of raw material used in exempted sale	Purchase tax leviable (@ 4%)	Interest @ 12% (up to 3/2010)
1.	'Special', Sriganganagar (1)	2006-07, to 2007-08 March 2009 and October 2009	254.94	10.20	3.65
2.	'B', Sriganganagar (3)	2006-07 to 2007-08 December 2008 to March 2010	165.42	6.62	2.65
<b>Total</b>				<b>16.82</b>	<b>6.30</b>

We pointed out this to the Department (August 2010 to September 2010) and reported to the Government (November 2010).

In respect of circle 'B' Sriganganagar, and Special Circle Sriganganagar, the Government stated (September 2011 and October 2011) that one dealer (M/s Sampat Industries) did not purchase raw material from unregistered dealers, he purchased tax paid raw material from registered dealers. We do not agree with the reply because as per part II of VAT Audit Report 2006-07, the dealer purchased raw material of ₹ 1.01 crore from unregistered dealers.

In respect of other two dealers (M/s Laxmi Seeds Corporation and M/s Dayal Seeds) Government stated that they purchased raw material from farmers. This reply of the Government is also not tenable because as per section 4(2) of RVAT Act every dealer who purchased any goods other than exempted goods without paying any tax and used it in manufacture of exempted goods, shall be liable to pay tax on the purchase price. In respect of one dealer (M/s Bihani Seeds) Assessing Authority intimated that demand of ₹ 16.05 lakh has been raised (December 2011).

### 2.13.2 Short-levy of tax on taxable turnover

Under Section 4 of the RVAT Act and Section 8 of the CST Act, the leviable tax at the prescribed rate is determined by the assessing authority on the taxable turnover of different commodities. Interest is leviable on delayed payment of tax under Section 55 of the RVAT Act.

During test check of the assessment records of the Commercial Taxes Office (CTO), Circle 'B', Bhiwadi for the period 2009-10, we noticed (January 2011) that one dealer (M/s. D.K. Trades Center, Bhiwadi) had depicted inter-state sale of ₹ 24.99 crore during the year 2007-08. The assessing authority, while finalising the assessment (March 2010) assessed and levied difference tax on turnover of ₹ 22.99 crore only. This resulted in short levy of tax ₹ 8.00 lakh (₹ 6.00 lakh at the rate of three *per cent* and difference tax ₹ 2.00 lakh at the rate of one *per cent*). Interest ₹ 0.30 lakh was

also payable on balance tax after adjustment of input tax credit (calculated upto March 2010).

When we pointed out this (December 2010) to the Department and reported to the Government (April 2011).

The Government intimated (September 2011) that a demand of ₹ 8.72 lakh pertaining to difference tax and interest thereon had been raised (January 2011) and adjusted it from ITC on 30<sup>th</sup> May 2011. We are awaiting information regarding the remaining recovery along with interest (December 2011).

## **2.14 Non-compliance of provisions of notifications**

*The Government notifications issued provides for:*

- (a) allowing benefit of the Composition Schemes for Saraffa/Gems and Stones dealers, Brick Kilns owners and Petroleum dealers subject to compliance of certain conditions specified therein;*
- (b) grant of exemption to exempted units after deduction of ITC, and partial exemption under CST;*
- (c) grant of benefit of composition to entitled units who applied within the prescribed due dates*
- (d) levy of entry tax; and*
- (e) levy of interest at prescribed rate.*

*During test check of the records, we noticed that some of the provisions of above notifications were not observed by the assessing authorities in cases mentioned in paragraphs 2.14.1 to 2.14.6. This resulted in incorrect grant of deferment/ non/short levy/realisation of tax/interest of ₹ 5.89 crore.*

### 2.14.1 Incorrect grant of benefit of composition of tax Scheme to Saraffa dealers

As per paragraph 4 of the Composition Scheme for *Saraffa* Dealers and Gems & Stones, 2006 issued under Section 5 of the RVAT Act, where the annual composition amount is less than ₹ 1.20 lakh, it shall be paid in four quarterly instalments, to be deposited by 7<sup>th</sup> of April, July, October and January of the relevant year. Where annual composition amount is ₹ 1.20 lakh or more it shall be paid in twelve equal monthly instalments, to be deposited upto 7<sup>th</sup> day of every month starting from April of the relevant year. If a dealer fails to deposit the composition amount in the specified period, he shall be allowed to avail the benefit of the scheme if he deposits the whole amount which has become due along with interest thereon and a late fee amounting to 25 *per cent* of due composition amount. If he deposits the due installment by 31 December and the late fee shall be 50 *per cent* of due amount if he deposits the due installment after 31 December but before 31 March of the relevant financial year. Further, in case the dealer violates any of the conditions of the scheme, the assessing authority may cancel the composition certificate under clause 7.6 (*Saraffa*) and 7.7 (Gems & Stone) of the scheme and in that case the dealer shall be liable for action under the provisions of the RVAT Act and rules made thereunder.

During test check of the assessment records of five offices<sup>21</sup> for the period 2006-07 and 2007-08, we observed (September 2010 to December 2010) that 14 dealers who had opted for the *Saraffa*/Gems and Stones composition schemes, failed to deposit the prescribed composition amount within the period specified in the scheme i.e. 31<sup>st</sup> March of the relevant financial year. Due to non-compliance of conditions of the schemes, these dealers were not eligible to avail the benefits of the scheme. However, the Assessing Authorities did not take action against these dealers for assessing them as normal assessee under the RVAT and realising the differential amount of tax. This resulted in non-levy of differential amount of tax ₹ 73.72 lakh besides interest ₹ 23.02 lakh (calculated up to March 2010).

These cases were pointed out to the Department (October 2010 to December 2010) and reported to the Government (February 2011 to March 2011). In case of CTO, Circle 'B' Jaipur, the Department intimated (December 2011) that a demand of ₹ 20.96 lakh has been raised. In respect of CTO, Circle 'J' Jaipur the Government intimated (December 2011) that a demand of ₹ 11.76 lakh has been raised and in the remaining cases, we are awaiting their replies (December 2011).

<sup>21</sup> Circle 'I' Jaipur, Circle 'B' Jaipur, Circle 'D' Jaipur, Special Circle 'V' Jaipur and Circle 'J' Jaipur,

### 2.14.2 Incorrect grant of benefit of composition of tax to brick kilns owners

By issue of a notification dated 6.5.2006 under Section 5 of the RVAT Act, Government introduced Composition Scheme for 'Brick Kilns 2006' (scheme), permitting dealers to opt for payment of a composition amount in lieu of tax on sale of brick manufactured by them. As per paragraph 3.1 of the scheme, the composition amount shall be valid for the composition period of two years and shall be determined for the first year as follows:

- (a) Where capacity of kiln per round is less than eight lakh bricks ₹ 90,000 per annum per kiln,
- (b) Where capacity of kiln per round is eight lakh or more but less than eleven lakh bricks ₹ 1,44,000 per annum per kiln, and
- (c) Where capacity of kiln per round is eleven lakh bricks or more ₹ 1,44,000 per annum per kiln for first eleven lakh and ₹ 1,300 for every addition of one lakh bricks or part thereof.

The composition amount for subsequent years shall be 110 *per cent* of the composition amount for immediately preceding year. The composition amount shall be payable in four equal instalments to be deposited upto 14<sup>th</sup> day of start of each quarter. Where a dealer has failed to deposit the composition amount in the period specified, he shall be allowed to continue to avail the benefits of the scheme, if he deposits the whole amount which became due with interest thereon at the rate notified under the RVAT Act. Besides he shall also deposit a late fee, amounting to 25 *per cent* of the due composition amount, where he deposits the due instalment by 31 December and this late fee shall be 50 *per cent* of due amount if he deposits the due amount after 31 December but before 31 March of the relevant financial year. Further, clause 7.6 of the scheme stipulates that in case the dealer violates any of the conditions of the scheme, the assessing authority may cancel the composition certificate and the dealer shall be liable for action under the provisions of the RVAT Act and rules made thereunder.

During test check of the assessment records of the CTO, Circle-I, Jaipur for the period 2008-10, we noticed (November 2010) that one brick kiln owner M/s Jai Shree Dayal Bricks, Jaipur opted for the composition scheme but no composition certificate was issued to him by the assessing authority. Even though the dealer availed the benefit of scheme for the year 2006-07 and 2007-08, with composition amount ₹ 1.44 lakh for both the years. We saw that the dealer deposited the amount of installments late and also did not deposit the due composition amount along with interest and late fee on or before 31 March for availing of benefit of the scheme.

We observed that the assessing authority, while finalising the assessment for the years 2006-07 and 2007-08, did not levy the tax under the RVAT Act on the basis of turnover as under:

(₹ in lakh)

Year	Turn over	Percentage rate of Tax	Amount of VAT due	Amount deposited	Balance tax due	Interest amount up to March 2010
2006-07	39.49	12.5	4.94	1.44	3.50	1.47
2007-08	39.66	12.5	4.95	1.44	3.51	1.05
<b>Total</b>			<b>9.89</b>	<b>2.88</b>	<b>7.01</b>	<b>2.52</b>

This resulted in non-levy of tax ₹ 7.01 lakh and interest ₹ 2.52 lakh (calculated upto 31.3.2010).

The omission was pointed out to the Department (December 2010) and reported to the Government (February 2011). We are awaiting their replies (December 2011).

### 2.14.3 Incorrect grant of benefit of composition of tax to Petroleum dealers

Government by issue of a notification dated 9 March 2007 under Section 5 of the RVAT Act, a Composition Scheme for registered dealers having retail outlets of petroleum companies (scheme), permitting such dealers to opt for payment of composition amount in lieu of Tax on sale of lubricant, yellow cloth, and fan belt. As per paragraph 4.01 of the scheme, the composition amount shall be paid in four quarterly instalments to be paid by 7<sup>th</sup> day of the month following the quarters ending June, September, December and March of the year. According to paragraph 5.4 where a dealer has failed to deposit the composition amount in the period specified, he shall be allowed to continue to avail the benefit of the scheme on fulfillment of condition that he shall deposit the whole of the amount which has become due under the scheme along with interest thereon at the rate notified under RVAT Act. Besides, he shall also deposit a late fee, amounting to 25 per cent of the due composition amount required to be deposited under the scheme where he deposited the due instalment within three months of the due date and this late fee shall be 50 per cent of due amount if he deposits the due instalments after aforesaid period of three months but before 31 March of the relevant financial year, and thereafter he shall not be eligible for the benefits under the scheme. Further, clause 8.8 of the scheme stipulates that in case the dealer violates any of the conditions of the scheme, the assessing authority may cancel the composition certificate and the dealer shall be liable for action under the provisions of the RVAT Act and rules made thereunder.

During test check of the assessment records of four offices, we observed (between August 2010 and March 2011) that 32 petroleum dealers who were

availing the benefit of above scheme did not pay the prescribed composition amount in specified period. Due to non-compliance of condition of the scheme; these dealers were not eligible for the benefit under the scheme. However, the assessing authority did not take action against these dealers under paragraph 8.8 of the scheme for assessing them as normal assessee under the RVAT and realising the differential amount of tax. This resulted in non-levy of difference amount of tax ₹ 30.37 lakh and interest ₹ 9.57 lakh (calculated up to March 2010) as mentioned in the following table:

(₹ in lakh)

Name of circle (no. of dealers)	Assessment year (month of assessment)	Total taxable turnover under the scheme	Tax levialble under RVAT Act @ 12.5 %	Composition amount deposited	Net tax recover-able	Interest (up to March 2010)
Jalore (18)	2007-08 (June 2009 to September 2009)	123.20	15.40	1.24	14.16	4.25
Sumerpur (Pali) (8)	2006-07, 2007-08 (March 2009 to March 2010)	38.77	4.85	0.26	4.59	1.55
'B' Jaipur (3)	2007-08 (August 2009, February 2010 and March 2010)	46.80	5.85	0.47	5.38	1.61
Gangapur-city (3)	2006-07, 2007-08 (March 2009 to March 2010)	54.46	6.81	0.57	6.24	2.16
	<b>Total</b>	<b>263.23</b>	<b>32.91</b>	<b>2.54</b>	<b>30.37</b>	<b>9.57</b>

When we pointed out this to the Department (September 2010 to April 2011) and reported to the Government (November 2010 to May 2011). In case of CTO Circle Jalore, the Government intimated (September 2011) that a demand of ₹ 19.07 lakh has been raised (May 2011) in all 18 cases and in 16 cases partial recovery of ₹ 6.13 lakh has also been made. Recovery of remaining demand in 14 cases has been stayed by Additional Commissioner (Appeals) Jodhpur and in case of Circle Gangapur city, the Government intimated (September 2011) that a demand of ₹ 9.70 lakh has been raised (July 2011) in all three cases and efforts are being made for recovery of demand. In case of CTO Circle Sumerpur (Pali), Government intimated (October 2011) that a demand of ₹ 5.30 lakh has been raised (July 2011) in seven cases out of eight cases and in case of Circle B Jaipur, Government intimated (October 2011) that a demand of ₹ 4.24 lakh has been raised in two cases and efforts are being made for recovery of demand.

### 2.14.4 Incorrect grant of deferment of tax

- The industrial units availing the benefit of exemption from tax, *inter alia*, under the Sales Tax New Incentive Scheme for Industries (Incentive Scheme), 1989, or the Rajasthan Sales Tax/the Central Sales Tax Exemption Scheme for Industries, 1998, were allowed to defer the payment of tax payable by them to the extent mentioned therein by issue of a notification dated 31.03.2006.
- The percentage of deferment of tax in the extended period shall be equal to the extent of the percentage of deferment of tax in the year immediately preceding such extension.
- As per notification dated 06.05.1986, any dealer manufacturing goods in the State of Rajasthan, may claim partial exemption from the tax payable in the course of inter-state trade or commerce. This partial exemption was also to be deducted from output tax before granting deferment.
- As per Section 17 of the RVAT Act, the term 'tax payable by a dealer' is the amount of tax leviable under the Act less the amount of ITC.

During test check of the assessment records of seven offices (between April 2010 and March 2011), we observed that while finalising the assessment of nine dealers the assessing authorities incorrectly allowed deferment of tax ₹ 3.11 crore, interest ₹ 97.95 lakh (calculated upto March 2010) was also leviable. Details are hereunder:

#### (i) Non-deduction of ITC

In five offices, we observed that the assessing authorities incorrectly allowed deferment of tax without deducting ITC from the output tax. This resulted in excess grant of deferment of tax ₹ 2.11 crore, and interest ₹ 58.87 lakh (calculated upto March 2010) was also leviable as mentioned in the **Annexure-D**.

The cases were pointed out to the Department (July 2010 to April 2011) and reported to the Government (March 2011 to April 2011). We are awaiting their replies (December 2011).

#### (ii) Adoption of incorrect rate of percentage CTO, Special Circle, Udaipur

We observed that a dealer (M/s Peacock Industries, Udaipur) was entitled to defer 30 *per cent* and 20 *per cent* of the tax payable during 2006-07 and 2007-08 respectively for remaining period of the scheme. The Assessing Authority while finalising the assessment assumed the remaining period as extended period of the scheme and incorrectly allowed 40 *per cent* deferment

of tax of ₹ 25.55 lakh during 2006-07 and ₹ 34.49 lakh during 2007-08 instead of allowable deferment of tax of ₹ 19.16 lakh and ₹ 17.24 lakh respectively. This resulted in excess deferment of tax ₹ 23.64 lakh and interest of ₹ 7.86 lakh (calculated upto March 2010).

When we pointed out this to the Department (March 2011) and reported to the Government (April 2011). Government intimated (October 2011) that benefit of deferment had been allowed to the dealer at the rate of 40 *per cent* as per paragraph 6 of notification dated 31.3.2006. We do not accept the reply as provisions of paragraph 6 are applicable for the extended period only, which starts after the completion of sanctioned period of the scheme. In this case, the year 2006-07 and 2007-08 was within the original sanctioned (remaining) period. Therefore the dealer was entitled for deferment at the rate of 30 and 20 *per cent* respectively only.

**(iii) Non-deduction of ITC and adoption of incorrect rate of percentage CTO, Circle 'B' Sriganganagar**

We observed that a dealer (M/s Sarawagi Roller Flour Mills Pvt. Ltd., Sriganganagar) was eligible for 30 *per cent* deferment of tax liability. The Assessing Authority, while finalising the assessment for the year 2007-08, incorrectly allowed deferment of tax without deducting input tax credit from output tax and allowed deferment of tax ₹ 9.57 lakh instead of allowable deferment ₹ 2.31 lakh. This resulted in excess deferment of tax of ₹ 7.26 lakh and interest of ₹ 2.18 lakh (calculated upto March 2010).

We pointed out this to the Department (August 2010) and reported to the Government (November 2010 and April 2011). Department intimated (June 2011) that benefit of deferment had been allowed to the dealer at the rate of 40 *per cent* as per paragraph 6 of notification dated 31.3.2006. We do not accept the reply as provisions of paragraph 6 are applicable for the extended period only, which starts after the completion of sanctioned period of the scheme. In this case, the year 2007-08 was within the original sanctioned (remaining) period. Therefore the dealer was entitled for deferment at the rate of 30 *per cent* only. We are awaiting their replies (December 2011).

**(iv) Non-deduction of partial exemption under CST  
Special Rajasthan Circle, Jaipur**

We observed that while finalising the assessment of a dealer (M/s Manglam Cement Ltd., Jaipur) for the year 2006-07, the assessing authority incorrectly allowed deferment of tax without deducting 'Partial exemption' under notification dated 06 May 1986 from the output tax (CST) before granting deferment. This resulted in excess deferment of ₹ 69.15 lakh and interest of ₹ 29.04 lakh (calculated upto March 2010) for the period 2006-07.

The case was pointed out to the Department and reported to the Government (April 2011). We are awaiting their replies (December 2011).

### 2.14.5 Non-levy of Entry Tax

By issue of a notification dated 08.03.2006 under Section 3 (1) of the Rajasthan Tax on Entry of Goods into Local Areas Act, 1999, the State Government specified the tax payable by a dealer in respect of the specified goods at such rates as have been shown in the notification.

During test check of the assessment records of the Assistant Commissioner, Circle 'B', Alwar for the year 2009-10, we noticed (June 2010) that a dealer (M/s South Asia Breweries Pvt. Limited, Alwar) purchased goods from outside the State without paying entry tax, for consumption or use in business on which entry tax was leviable. Non-levy of entry tax resulted in non-recovery of ₹ 16.50 lakh of entry tax

and interest of ₹ 4.95 lakh (calculated up to 31.03.2010).

On being pointed out (June 2010), the assessing authority intimated (January 2011) that a demand of entry tax of ₹ 16.05 lakh and interest of ₹ 5.12 lakh had been raised (September 2010) and efforts were being made to recover the amount (April 2011).

This omission was pointed out to the Department (July 2010) and reported to the Government (September 2010). We are awaiting their replies (December 2011).

### 2.14.6 Non-levy of interest on delayed payment of tax

By issue of a notification dated 05.05.2006 under Section 55 (1) of the RVAT Act, the State Government has prescribed levy of 12 per cent interest on delayed payment of tax.

During test check of the assessment records of the CTO, Special Circle, Udaipur for the period 2009-10, we noticed (February 2011) that a dealer M/s Rajasthan Syntex Limited, Udaipur adjusted the interest subsidy and wages subsidy ₹ 64.95 lakh sanctioned under Rajasthan Investment Promotion Policy 2003 against the tax payable. As the subsidy was credited by the treasury in

March 2009 i.e. after the due date of payment of tax for the year 2007-08, interest ₹ 11.69 lakh was leviable for delayed payment of tax. However, the assessing authority did not levy the interest while finalising the assessment (January 2010). This resulted in non-levy of interest ₹ 11.69 lakh.

When we pointed out this to the Department (March 2011) and reported to Government (April 2011). Government intimated (September 2011) that a demand of ₹ 11.69 lakh had been raised (July 2011) and efforts were being made for recovery of demands.

***CHAPTER-III***  
***TAXES ON MOTOR VEHICLES***

<b>Executive Summary: Chapter - III</b>	
Marginal increase in tax collection	Receipts of taxes on motor vehicles registered an increase of 17.44 <i>per cent</i> over the receipt of the previous year. The receipt of motor vehicles was 7.77 <i>per cent</i> of total tax receipt as compared to 8.36 <i>per cent</i> of previous year.
Low recovery by the Department of observations pointed out by us in earlier years	During the period 2005-06 to 2009-10 we had pointed out non/short levy, non/short realisation of tax, fee etc, with revenue implication of ₹ 114.22 crore in 28 paragraphs. Of these, the Department/Government accepted audit observations in 27 paragraphs involving ₹ 67.87 crore but recovered only ₹ 24.20 crore in 25 paragraphs.
Non-compliance of observations of internal audit	We noticed that 11,443 paragraphs of 984 inspection reports for the period upto 2010-11 were outstanding at the end of 2010-11, of which some paras were outstanding since 1991-92. Thus, the high outstanding paras eroded the very purpose of internal audit.
Results of audits conducted by us in 2010-11	<p>During test-check of the records of 24 units relating to receipts of ₹ 933.92 crore, we noticed non/short recovery of tax and other irregularities involving ₹ 46.03 crore in 6,634 cases.</p> <p>The Department accepted underassessment and other deficiencies of ₹ 20.74 crore in 5,895 cases, of which 5,064 cases involving ₹ 19.32 crore were pointed out in audit during the year 2010-11 and rest in earlier years. ₹ 2.34 crore was realised in 1,063 cases during the year 2010-11, of which ₹ 0.85 crore in 440 cases pointed out in 2010-11 and rest ₹ 1.49 crore in 623 cases in earlier years.</p>
What we have highlight in this Chapter	The <b>Performance Audit on 'Computerisation in the Motor Vehicle Department'</b> revealed a number of Systems and Compliance deficiencies which needs correction. Due to entry of wrong data in the software like chasis number and engines number, we cannot rely on the data of State/National Register. We have given specific recommendations at Para No. 3.8.18. We have also highlighted cases relating to non/short charging of taxes on motor vehicles.

Our conclusion	<p>The objective of the Computerisation of the Transport Department to imparting better and timely services to the users and plugging revenue leakage was not achieved as several components of the modules were not in operation and software deficiencies were found by us. In some Regional Transport offices though, the computerisation was implemented, the work continued to be done manually due to shortage of manpower and lack of training.</p> <p>Tax collected by flying squads and tax collection centres were deposited after delay ranging from one day to 424 days, due to insufficient supervisory checks. Temporary misappropriation of money can not be ruled out in these cases.</p>
----------------	---

## CHAPTER-III: TAXES ON MOTOR VEHICLES

### 3.1 Tax administration

The Transport Department is responsible for registration of vehicles, grant of permits for vehicles and exercises control over vehicles plying in the State. The Department also issues licences to drivers, conductors and traders and fitness certificate of vehicles. Levy and collection of taxes, fees and penalties under the provisions of the Motor Vehicles Act, 1988, the Central Motor Vehicles Rules, 1989, the Rajasthan Motor Vehicles Taxation Act (RMVT Act), 1951, the Rajasthan Motor Vehicles Taxation Rules (RMVT Rules), 1951 and the Rajasthan Motor Vehicles Rules, 1990 are other responsibilities of the Department. Works relating to registration and fitness of vehicles, grant of licences, collection of taxes, fees, penalties *etc.* have been computerised in the Department.

The Transport Department is headed by the Transport Commissioner who is assisted by three Additional Commissioners and seven Deputy Commissioners at headquarter level. The entire State is divided into 11 regions, headed by Regional Transport Officers cum *ex-officio* Member, Regional Transport Authority. Besides, there are 37 vehicles registration cum taxation offices headed by District Transport Officers.

### 3.2 Trend of receipts

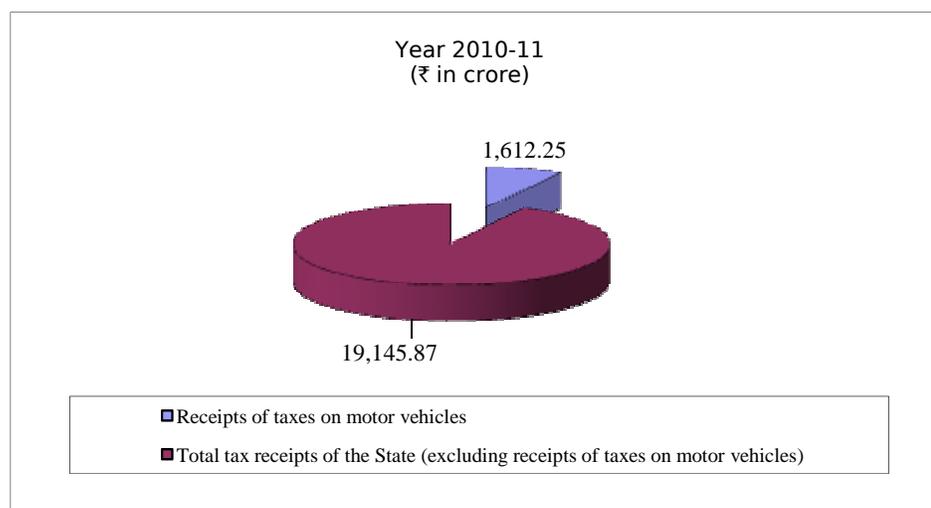
Receipts of taxes on motor vehicles during the years from 2006-07 to 2010-11 along with the total tax receipts of the State have been exhibited in the following table:

(₹ in crore)

Year	Budget estimates	Receipts of taxes on motor vehicles	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	950.00	1,023.61	(+) 73.61	(+) 7.74	11,608.24	8.82
2007-08	1,075.00	1,164.40	(+) 89.40	(+) 8.32	13,274.73	8.77
2008-09	1,200.00	1,213.56	(+) 13.56	(+) 1.13	14,943.75	8.12
2009-10	1,300.00	1,372.87	(+) 72.87	(+) 5.61	16,414.27	8.36
2010-11	1,500.00	1,612.25	(+) 112.25	(+) 7.48	20,758.12	7.77

Receipts of taxes on motor vehicles during the year 2010-11 along with total tax receipts of the State (excluding receipts of taxes on motor vehicles)

is shown in the following pie chart:



Though in actual terms, receipts of taxes on motor vehicles registered marginal increase every year but the percentage of receipts of taxes on motor vehicles as compared to total tax receipts of the State is decreasing every year in comparison to the year 2006-07. By the year 2010-11, these receipts accounted for 7.77 per cent of total tax receipts of the State.

### 3.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 39.47 crore, of which ₹ 19.32 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue as on 31 March 2011.

(₹ in crore)

Year of arrear	Opening balance of arrears as on 1.4.2010	Amount collected during the year 2010-11	Closing balance of arrears as on 31.3.2011
Upto 2005-06	22.12	2.80	19.32
2006-07	3.72	0.63	3.09
2007-08	5.47	0.11	5.36
2008-09	7.40	0.98	6.42
2009-10	5.87	0.59	5.28
<b>Total</b>	<b>44.58</b>	<b>5.11</b>	<b>39.47</b>

The chances of recovery of arrears of ₹ 19.32 crore, outstanding for more than five years, are bleak.

**We recommend that the Government take appropriate action to recover the arrears.**

### 3.4 Cost of collection

The gross collection of the revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during

the period from 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for same period are as follows:

Sl. No.	Year	Gross collection (₹ in crore)	Expenditure on collection of revenue (₹ in crore)	Percentage of expenditure on collection	All India average percentage of expenditure
1.	2006-07	1,023.61	15.56	1.52	2.47
2.	2007-08	1,164.40	17.44	1.50	2.58
3.	2008-09	1,213.56	29.25	2.41	2.93
4.	2009-10	1,372.87	27.04	1.97	3.07
5.	2010-11	1,612.25	30.82	1.91	NA

Increase in expenditure on collection of revenue during the year 2008-09 was due to increase in salary of staff on account of implementation of recommendations of sixth central pay commission in the State. We noted that the percentage of expenditure on collection of taxes on motor vehicles to gross collection was always on lower side in comparison to all India average percentage. The Government may continuous efforts for bringing down.

### 3.5 Impact of Audit Reports

We through our Audit Reports had pointed out cases of non/short levy, non/short realisation, underassessment/loss of revenue, application of incorrect rate of tax, incorrect computation of tax *etc.* with revenue implication of ₹ 114.22 crore in 28 paragraphs during the last five years. Of these, the Department/Government had accepted audit observations in 27 paragraphs involving ₹ 67.87 crore and had since recovered ₹ 24.20 crore in 25 paragraphs (December 2011) as shown in the following table:

Year of Audit Reports	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	6	19.07	6	5.65	6	2.09
2006-07	6	7.23	6	5.92	6	2.40
2007-08	9	25.15	9	21.50	9	13.60
2008-09	3	47.75	2	19.98	1	0.57
2009-10	4	15.02	4	14.82	3	5.54
<b>Total</b>	<b>28</b>	<b>114.22</b>	<b>27</b>	<b>67.87</b>	<b>25</b>	<b>24.20</b>

These audit paragraphs required recovery from large number of vehicles. The Department has to recover the objected amount from owners of each such vehicle.

**The Government may issue instructions to the Department to recover the amount involved in the audit paragraphs on priority.**

### 3.6 Working of Internal Audit Wing

Internal Audit Wing is headed by the Financial Advisor and assisted by one Senior Accounts Officer and two Accounts Officers. Five internal audit parties are working in the Department each headed by Assistant Accounts Officer. The position of last five years of internal audit was as under:

Year	Pending units	Units due for audit during the year	Total units due for audit	Units audited during the year	Units remained unaudited	Shortfall in per cent
2006-07	-	77	77	77	-	-
2007-08	-	79	79	75	4	5
2008-09	4	79	83	67	16	19
2009-10	16	79	95	89	6	6
2010-11	6	43	49	49	-	-

We noticed that 11,443 paragraphs of 984 inspection reports for the year upto 2010-11 were outstanding at the end of 2010-11. Year-wise break up of outstanding paragraphs of internal audit reports is as under:

Year	1991-92 to 2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Paras	6,821	989	887	764	969	1,013	11,443

Paragraphs of internal audit reports were outstanding since 1991-92. Thus, the huge outstanding paras defeated very purpose of internal audit.

**The Government may consider strengthening functioning of the Internal Audit Wing in order to take appropriate measures for plugging the leakage of revenue and for compliance with the provisions of the Act/Rules. Appropriate instructions may also be issued to the Department for taking action on the reports of the Internal Audit Wing.**

### 3.7 Results of Audit

During test-check of the records of 24 units relating to receipts of ₹ 933.92 crore, we noticed non/short recovery of tax and other irregularities involving ₹ 46.03 crore in 6,634 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Computerisation in the Motor Vehicle Department (A Performance Audit)	1	0.00
2.	Non/short recovery of tax, penalty, interest and compounding fee	5,109	40.06
3.	Non/short computation of motor vehicle tax/special road tax	1,516	5.96
4.	Other irregularities	8	0.01
<b>Total</b>		<b>6,634</b>	<b>46.03</b>

The Department accepted underassessment and other deficiencies of ₹ 20.74 crore in 5,895 cases, of which 5,064 cases involving ₹ 19.32 crore were pointed out in audit during the year 2010-11 and rest in earlier years. During the year 2010-11 ₹ 2.34 crore was realised in 1,063 cases, of which ₹ 0.85 crore in 440 cases pointed out in 2010-11 and rest ₹ 1.49 crore in 623 cases in earlier years.

A Performance Audit on '**Computerisation in the Motor Vehicle Department**' and a few illustrative audit observations involving ₹ 16.72 crore are mentioned in the succeeding paragraphs.

### 3.8 Performance Audit on 'Computerisation in Motor Vehicle Department'

#### Highlights

- 'VAHAN' software was implemented in 36 Regional Transport Offices (RTOs)/District Transport Offices (DTOs) from October 2009 to March 2010 after a delay of 52 to 57 months since its pilot implementation in Alwar in May 2005. The phase III of 'VAHAN' is yet to be implemented in 33 sub offices. The Permit and Enforcement module of 'VAHAN' have not been initiated at all. Though the 'SARATHI' software has been implemented in seven RTOs out of 13 RTOs, the software is running only in four offices due to shortage of manpower. Online application for learners License and conductor License was not implemented. Thus, the entire benefits of computerisation have not been achieved. The transfer of legacy data was not completed due to difference in structure base of old software's with 'VAHAN'/'SARATHI' software's.

(Paragraph 3.8.8 & 3.8.8.1)

- Due to inadequate validation controls in 'VAHAN' software, the system accepted incorrect and improbable data as dates of manufacture, pollution control, laden weight and seating capacity of vehicles. Further, there were many duplicate entries of engine number/chassis number based on back end entries without validation and key fields of insurance cover notes kept blank or fake numbers mentioned, resulting in incomplete/incorrect database in the State Register/National Register.

(Paragraph 3.8.9)

- There were design deficiencies in the system, which need to be corrected to avoid incorrect tax collection and data information. Further there was no provision in the system to highlight delays in issue of licence or registration *etc.*

(Paragraph 3.8.10.1)

- There was short recovery of fancy number fee of ₹ 19,200 in seven cases due to non mapping of fee for fancy number in the software.

(Paragraph 3.8.10.2)

- Data on issue of licenses/permits, fees collected were not verified by the Transport Commissioner's office, resulting in non-detection of errors which could have otherwise been restricted/curtailed by executive instructions/guidelines. Internal control mechanism was ineffective for reviewing transaction data for generating logs.

(Paragraph 3.8.11.2)

- Due to inadequate application control, the driving licences in 853 cases out of 1,61,754 test checked were found to be issued to non qualified applicants who were illiterate, below class 8<sup>th</sup> or qualification not specified, or whose age was shown as zero. Improbable and wrong entries affected the correctness of National/State Register of Licenses issued.

(Paragraph 3.8.12.2)

- Total hardware of ₹ 8.65 crore was sanctioned by the Central Government and the State Government for all offices but the details of supply, installation and utilisation/non-utilisation were neither monitored by the Transport Commissioner's(TC) office nor by the National Informatics Centre, Jaipur.

**(Paragraph 3.8.14.3)**

- There was no fire detection/fighting equipment to fight any contingency in server room of any test checked office.

**(Paragraph 3.8.14.4)**

- The connectivity had not been established in DTOs, Banswara and Dungarpur and RTO, Kota. There were constant disturbance in the network lines at RTO, Pali, which resulted in problems related with backup and updation of the software. Further, tax collection centres have not been connected with the TC/RTO's.

**(Paragraph 3.8.14.5)**

- The staff and officers posted at test checked offices were neither trained nor provided user manuals because of which the staff faced difficulties in operating the system on day to day basis.

**(Paragraph 3.8.15.1)**

### **3.8.1 Introduction**

To achieve faster, better and transparent services and monitoring implementation of the Motor Vehicle Act and Rules, the Government of India developed two standardised software 'VAHAN' and 'SARATHI' through National Informatics Centre (NIC). These were provided to all the States Transport Authorities. The Transport Department, Government of Rajasthan was also provided technical assistance from the NIC, free of charge, for customisation and backend integration.

The National Permit (NP) composite fee regime had become effective from 07 May 2007 for national goods carrier vehicles. An electronic system of grant of NP had been developed by the Ministry of Road Transport and Highways in consultation with NIC, New Delhi. Access to this software had been made available to the State through a National Portal.

The Transport Department (Department) of Government of Rajasthan functions under the provisions of section 213 of Motor Vehicles Act (MV Act), 1988. The Department has been primarily established to enforce the provisions of MV Act, 1988, Central Motor Vehicles Rules (CMV Rules), 1989, Rajasthan Motor Vehicles Rules (RMV Rules), 1990, Rajasthan Motor Vehicles Taxation Act and Rules, 1951 in the State. The main functions of the Department are registration of vehicles and issue of permits, licenses and fitness certificates for vehicles. The Department also looks after implementation of road safety programmes, control of pollution caused by emission of the motor vehicles, enforcement of Rules, taxation and recovery, opening of routes etc., to adequate and economy transport for the movement of passengers and goods by road.

### **3.8.2 Organisational setup**

The Department is headed by the Transport Commissioner cum Principal Secretary to the Government (Commissioner) as Head of the Department. He is assisted by three Additional Transport Commissioners, seven Deputy Transport Commissioners and one Financial Advisor, along with other supporting staff. Total strength of the Department is 1624. The entire state is divided into 11 regions, headed by the Regional Transport Officers cum ex-officio Member Regional Transport Authority. There are 37 vehicles registration offices headed by District Transport Officers cum taxation officers.

### **3.8.3 Audit objectives**

The audit objectives were to ascertain whether:

- the objectives of computerisation through the NIC developed Information Technology (IT) applications of 'VAHAN', 'SARATHI' and 'National Permit System' were achieved;
- the phase wise implementation schedule was achieved by State for 'VAHAN' and 'SARATHI' were achieved as per the time frame fixed by Ministry of Road Transport and Highways;
- computerised system implements were complete (module wise) and correct and complete data was captured by the RTOs;
- connectivity was established among RTOs for creation of register of vehicles and licenses and National registers and central servers were put in place towards achievement of above stated objectives;
- reliable general and security controls were put in place to ensure data security and audit trail besides back up of data for loss/ crash of systems and to have an overall assurance for the functioning of the computerized system for the stated objectives; and
- internal control mechanism was in place at the State level to monitor the implementation of the two applications.

### **3.8.4 Audit criteria**

The Performance Audit of the '**Computerisation in Motor Vehicle Department**' was conducted to assess the position of implementation and working of software 'VAHAN', 'SARATHI' and 'National Permit System' (NPS) against the provisions of:

- Motor Vehicles Act, 1988;
- Central Motor Vehicle Rules, 1989;
- Rajasthan Motor Vehicles Taxation Act and Rules, 1951; and
- Rajasthan Motor Vehicle Rules, 1990.

### **3.8.5 Audit scope and methodology**

The scope of the present IT Audit covers audit of implementation and examination of controls in the 'VAHAN', 'SARATHI' and 'NPS' application

software's. Between July to October 2011, we visited five offices<sup>1</sup> for scrutiny of the records and to ascertain the correctness of data vis-à-vis data captured in the system. We also analysed data upto August 2011 from Transport Department of 10 selected RTOs/DTO's<sup>2</sup> by importing it using MS-Access and MS-Excel application.

### **3.8.6 Acknowledgement**

Indian Audit and Accounts Department acknowledges the co-operation of the Commissioner in providing the necessary information and records for audit. An Entry conference was held on 9 June 2011 with the Commissioner and Technical Director & Project Coordinator of NIC, Jaipur, in which the scope and methodology was explained. An exit conference was held with Transport Department on 13 January 2012 with Transport Commissioner cum Principal Secretary wherein the findings of the Performance Audit were discussed. The replies received during the exit conference and during the course of Performance Audit have been incorporated under the relevant paragraph of this Performance Audit.

### **3.8.7 Description of the software's developed by the NIC**

The NIC developed and provided the software to the State Government. The application system was on Linux operating system and database was on Oracle (Relational Data Base Management System) and developer as Windows backend. The following software applications have been developed:

- (i) **VAHAN** – An application developed by NIC for registration of vehicles and road tax clearance by the RTA/RTO. It helps the Department to register vehicles, collect tax, issue various certificates and permits and record fitness of vehicles.
- (ii) **SARATHI** – An application developed by NIC for issue of various licenses including learner license, permanent driving license, conductor's license and driving school license.
- (iii) **Data Transformation Service (DTS)** – A data transformation service developed by NIC for transferring 'VAHAN' and 'SARATHI' data from RTO locations to central database on web in the form of Oracle Data Integrator and ensuring data security.
- (iv) **National Permit System** – Electronic mode of grant/renew of national permit for goods carriages developed in consultation with NIC. Through this electronic system, consolidated fee can be deposited at any branch of SBI across the country w.e.f. 15-9-2010.

For monitoring of implementation of project a Deputy Transport Commissioner (Modernisation) has been appointed as nodal officer. Along with the Department, State Informatics Officer and two officers<sup>3</sup> from NIC were assigned to the Transport Department for supervision.

---

<sup>1</sup> RTO Alwar and Pali, DTO Barmer, Jalore and Sirohi.

<sup>2</sup> RTO Alwar, Pali, Sikar and Udaipur, DTO Barmer, Deedwana, Dholpur, Jalore, Kotputli and Sirohi.

<sup>3</sup> Technical Director & Project Coordinator and Senior System Analyst & Project Coordinator.

The audit findings pertaining to these three applications are discussed in the succeeding paragraphs.

### 3.8.8 Deficiencies noticed in planning and implementation of the system

The phase wise implementation of three application software's as on 14.07.2011 is as shown below:

Sl. No.	Implementation status	Objective	Target (No. of offices)	Implemented (No. of offices)
1	<b>VAHAN</b>			
	Phase I	VAHAN Implementation	14	14
	Phase II	VAHAN Implementation	23	23
	Phase III	Implementation of some modules of VAHAN at sub offices	35	2
2	<b>SARATHI</b>	SARATHI implementation	13	7
3	<b>NPS</b>	Implementation at 11 RTOs	11	11

#### VAHAN Software

VAHAN software was initially introduced at Alwar in May 2005 as pilot site. Even after successful implementation of the software, this software was implemented in remaining 36 offices from October 2009 to March 2010 resulting in delay of period ranging from 52 to 57 months. As seen from the table above, the phase III of 'VAHAN' is yet to be implemented in 33 sub offices.

#### SARATHI Software

SARATHI software was implemented in seven Offices<sup>4</sup> from September 2009 to April 2010. However, we noticed (October 2010) that the software was running in four offices<sup>5</sup>. The 'SARATHI' is yet to be implemented in 30 offices and all 35 Sub-Transport offices because of shortage of man power. Further the Department has not been able to implement online application for Learning License as well as in issue of Conductor License.

Reasons for non implementation of 'SARATHI' was called for, the Department stated that this was due to shortage of manpower for which recruitment is under process.

#### National Permit System

The online NP authorisation work had commenced from September 2010 and the national registers and central server were operationalised on 13.01.2010.

### 3.8.8.1 Transfer of legacy data

The planning for clubbing the legacy data of registered vehicles and driving licenses in the Department was under progress. The Department stated

<sup>4</sup> Alwar, Deedwana, Jalore, Kotputali, Pali, Sikar, and Sirohi.

<sup>5</sup> Alwar, Deedwana, Sikar and Sirohi.

(October 2011) that there was difference in the structure of database of legacy data and 'VAHAN' and 'SARATHI' software data, so they were facing the problem of uploading the old data in the new software.

### **3.8.8.2 Partial utilisation of the system**

The software was designed to automate the management of complete information related to vehicle registration but the Permit module (functioning only at Jagatpura, Jaipur on trial) and Enforcement module was yet to be made operational. The software had not been initiated in 33 Sub-Transport offices.

**The Government needs to take effective steps for earliest implementation of both the system in all the regional transport offices for a national registry of registered motor vehicles and driving licences in the interest of national security.**

### **3.8.9 Data Accuracy in 'VAHAN'**

#### **Inadequate application controls**

In data processing systems, adequate input, processing and output controls need to be designed to ensure data integrity and reliability. On analysis of the database of 4,52,751 registered vehicles of 10 test checked offices, we noticed that:

#### **(a) Input and validation Controls:**

- 10,037 cases of registration numbers were without the coding at the beginning of registration number for identification of the State/ Registering Authority. These numbers could not be authenticated without these details.
- There were 994 duplicate entries in the database. Further, there were 181 vehicles which had been registered with duplicate chassis number and 813 vehicles were registered with the duplicate engine numbers. The basic input control check for uniqueness of the engine and chassis number was not present in the system. During discussion with NIC, they informed that this is due to back end entry as there is no check in the back end entries.
- Though the operation dates (date of data entry) were from 17.05.2005 (Alwar) to 11.08.2011 (Barmer) but the year of manufacturing ranged from the year 2014 (Barmer) to 3200 (Alwar) in 27 cases, which was incorrect as the manufacturing date should not be accepted on or after the date of registration of the vehicle. This indicates that the input validation control on these date fields has not been enforced.
- The software had assigned coding between one to 10 and 99 for the norms of pollution but the relevant field in respect of 8,706 vehicles was left blank and at Udaipur 286 vehicles were assigned code as 11 and two vehicles were assigned code as 12 which was incorrect.
- We also noticed that there exists no check in value of certain fields for example:
  - In 100 cases, the laden weight of various types of vehicles exceeded 49,000 kg. Further, the unladen weight of vehicle was either more or equal to laden weight in various type of 31 vehicles.
  - The seating capacity of vehicles was indicated as 81 to 999 in 28 cases, which is not correct.

- During analysis of 4,52,751 records of owner table in respect of the test checked offices, we noticed that certain data fields were kept blank. In 17 cases, chassis number and in 6,414 cases engine numbers were not entered. The seating capacity was not entered in 8,335 cases. Cubic capacity was not entered in 3,279 cases and unladen weight was not entered in 8,612 cases. Further, laden weight was not entered in 1,09,384 cases and shown less than 151 Kg. in 55,474 cases. Further certain fields such as Operation date, Father's name, Address, city, Maker, Model, Manufacturing year, purchase date, receipt number and vehicle category were also left blank.

**(b) Registration of two or more vehicles with same insurance cover note.**

During analysis of 4,41,744 records, we noticed that in 8,246 cases, same insurance cover note numbers were used for registration of more than one vehicle. Thus, one vehicle one insurance criteria could not be checked. Further in 4,869 cases, cover note numbers were either kept blank or fake numbers were mentioned in the data field. The validity period of insurance was kept blank in 4,696 cases. Entry of a valid insurance cover note number was not made mandatory in the system.

All the above observations indicate deficiency in input controls and absence of supervision. The key fields left blank by the data entry operators need to be made mandatory so that complete database is maintained.

The matter was discussed with the officials of the NIC, they replied that, this is due to back end entry of data, as there is no check in entering the data from back end. The reply is not acceptable as due to this, wrong data is being entered and the same is transferred in the State/National Register.

### **3.8.10 Mapping of business Rules**

#### **3.8.10.1 System design deficiencies**

Any system developed has to take into account all the rules and the applicable rates thereof. We noticed following deficiencies in the 'VAHAN'.

- We noticed that in 23 cases, the registration period of non-transport vehicles were shown more than the permissible period of 15 years.
- We noticed that the system charged the penalty on one time tax from the date of purchase instead of allowing grace period of thirty days.

#### **3.8.10.2 Short recovery on allotment of fancy number**

As per notification dated 18-8-2007 in reference to rule 4.3 of RMVR 1990, for allotting a specific choice/ fancy registration number in advance for two wheelers and other than two wheelers, an amount of ₹ 1,000 and ₹ 5,000 respectively were to be charged by the Registering Authority.

During the analysis of data of fancy number table, we noticed that the Department had charged ₹ 500 to ₹ 1,000 against the prescribed fee of ₹ 1,000 and ₹ 5,000 in seven cases. This was due to the fact that the rates of fancy numbers were not mapped in the software. This non-mapping of rates resulting in short recovery of fee of ₹ 19,200.

### **3.8.11 Data safety and security**

#### **3.8.11.1 Physical and logical access controls**

Logical access controls are tools used for identification authorisation and accountability in computer information systems. They are components that enforce access control measures for systems, programs, processes, and information. Logical access controls can be embedded within operating system, applications, add-on security packages, or database.

It was observed that although each and every operator had different user ID and password, the operators shared their password with each other and in case of unavailability of any one of the operators, the work of that user was done by the other users by utilising his/her password. This informal methodology adopted was fraught with risk of unauthorised entries and also loss of trail for any such entries. Further, no documented password policy specifying the need to change the password periodically was circulated. There was also no restriction on 'logon' attempts to prevent access by unauthorised users. As such, the system was exposed to the risk of unauthorised access and consequent loss/transferring of data.

We also noticed that the system including server, network and switches etc. were freely accessible. Any unauthorised person could easily approach these places after entering the office premises. We noticed that one PC had been stolen from the office of DTO, Barmer.

#### **3.8.11.2 Verification of data**

As both client and server are independent DTOs/RTOs, transaction data relating to issue of licenses, permits, collection of taxes etc. has to be forwarded to the TC office for scrutiny. It was, however, noticed that the data was not verified by the TC office, resulting in non-detection of errors and loss of revenue which could have otherwise been restricted/ curtailed through executive instructions and guidelines.

We noticed that the existing internal control mechanism was not effective for reviewing the transaction data by management. There was no system to generate logs for recording actions of users which would provide certain degree of control to the system administrators.

#### **3.8.11.3 Absence of Business Continuity and disaster recovery plan**

Business continuity planning is necessary for recovery of the business processes with minimum loss to the business and restores the system within minimal possible time, in the event of a disaster. Considering the criticality of the system, the TD was required to formulate, document and test disaster recovery plans and ensure that staff were made aware of their responsibilities to ensure business continuity.

Non formulation of business continuity planning had following impacts:

- Backups were being taken at irregular intervals.
- No backup register was prepared.
- Non-testing of stored backups was being done to check data restoration.

- Non-storing of backup data off site in fire proof cabinets.
- Non-formulation of antivirus policy due to which different freeware were installed on the server posing a threat to the data.
- No Insurance cover for the computer hardware/IT Assets against robbery etc. were taken.

### **3.8.12 Audit observations relating to 'SARATHI'**

#### **3.8.12.1 Input and processing controls**

The Department was conducting computerised examination for issue of learner licenses. During test check of database we noticed that questions ranging from one to six were asked for the issue of learning license, based on which the applicant was considered eligible. The Department had not fixed minimum number of questions which were to be asked to an applicant before clearing the eligibility. As a result, the fairness in conducting the exam cannot be checked.

Further during test check of data of 99,717 applicants in 10 selected offices, we noticed that:

- Though 2,862 applicants got less than 60 *per cent* marks but they were declared pass by the software contrary to provision of the rules.
- In 101 cases, the number of questions answered was more than the number of questions posed by the system.

This indicates that the software has not been functioning properly and there was no manual check to control issue of licence to an ineligible applicant.

#### **3.8.12.2 Inadequate application controls**

In data processing systems, adequate input, processing and output controls need to be designed to ensure data integrity and reliability. During test check of 1,61,754 data, we noticed inadequacies in application control of the system as mentioned below.

- In 3,030 cases, licenses were issued to the applicants whose age was shown as "Zero".
- In 1,512 cases, transport licenses were issued to the applicants for more than three years.
- In 1,297 cases, non transport licenses were issued to the applicants for less than 20 years, whose age was below 30 years.
- In 853 cases, transport licenses were issued to non qualified applicants who were illiterate, below class 8<sup>th</sup> or qualification not specified.
- In 435 cases, non transport licenses were renewed for more than five years to the applicants whose age was more than 50 years.
- In 359 cases, non transport licenses were renewed for less than five years to the applicants whose age was more than 50 years.
- In 33 cases, non transport licenses were issued to the applicants for more than 20 years.

This indicates deficiency in input controls. These fields need to be given desired range/ limit so that incorrect or improbable information is not fed in the database. These wrong entries also affected the correctness of the State/National Registers of Licenses issued.

### **3.8.13 'National Permit System'**

#### **Irregular transaction through same ID**

The unique transaction identification cannot be generated twice from NIC portal. However we noticed that transporter Sh. Bhagu Bai, deposited ₹ 15,000 on 13 April 2011 by transaction ID 110400249380, at Udaipur city (Rajasthan) for vehicle no. RJ 27 GA 8287. Another transporter M/s PBI India Limited deposited ₹ 15,000 on 28 April 2011 with the same transaction ID (110400249380) at Purani Mandi, Jammu (J&K) for vehicle no. JK 02 AG 7984. This indicated that there were no unique data validation checks in the software.

### **3.8.14 Other implementation issues**

#### **3.8.14.1 Ownership of database**

Though the employees of the Department handle entire data entry at the Departmental counters, yet database administration was handled by the NIC. The consolidated data was being captured by NIC authorities and the Transport Department is dependent on NIC for providing the detailed and consolidated data. So the ownership of the data was being held by the NIC instead of the Transport Department.

#### **3.8.14.2 Sharing of the database with other agencies**

The information relating to vehicle i.e. registration number, chassis number, vehicle type, engine number etc. contained in server have to be shared with the police Department for initiating action in cases of theft, loss etc. Since the functions of the police Department have also been computerized, the databases of both the Department should be linked to enable the police Department to share critical information in time.

The Department stated (October 2011) that information in this regard was being provided.

#### **3.8.14.3 Management of hardware assets**

##### **Non-monitoring of IT assets**

The hardware amounting ₹ 8.65 crore was sanctioned by Central Government and State Government for all offices but the details of supply, installation and utilisation/non-utilisation was neither being monitored by TC office nor by the NIC, Jaipur.

#### **3.8.14.4 Non-provision of fire fighting equipment in the server room**

It is essential that the computer hardware, software and data are kept under strict fire safety measures. We noticed that there was no fire detection/ fighting equipment to fight any contingency in server room of any test checked office. The Department stated (October 2011) that no separate provisions had been made in this regard.

### **3.8.14.5 Lack of network infrastructure**

For the system to be fully operational, network inter-connectivity among RTO's/DTO's is required, but this networking has not been done. It was observed that the connectivity had not been established in DTOs, Banswara and Dungarpur and RTO, Kota. There were constant disturbance in the network lines at RTO, Pali, which resulted in problems related with backup and updation of the software. Further, tax collection centres have not been connected with the TC/RTO's.

Due to non connectivity and disturbance in network lines, the national register and state register were not showing correct and updated information.

### **3.8.14.6 Short/excess recovery of tax, penalty and fine**

The MV Act and Rules provides that tax, penalty and fine has to be paid by every owner/defaulters. During the test check of five offices, we noticed that there was short recovery of ₹ 2.02 lakh in 50 cases and excess recovery of ₹ 0.84 lakh in 19 cases of tax, penalty and fine.

### **3.8.15 Other points of interest**

#### **3.8.15.1 Inadequate training of personnel and non development of technical expertise within the Department**

The 'VAHAN' and 'SARATHI' software system's front desk operation is to be directly handled by the Regional Transport Office personnel. The system is also to be implemented and maintained by the Regional Transport Office staff with the support of the NIC. During test check of offices, we noticed that the staff and officers posted at Alwar, Pali, Jalore, Sirohi, Barmer, Dholpur, Sikar, Deedwana, Kotputali and Udaipur were neither trained nor provided user manuals by TC office, as a result, the staff was facing problems with the operating software.

Any IT system though initially developed/implemented through outsourcing has to be invariably taken over by the Department eventually, by developing expertise within the Department. The data captured through 'VAHAN' is very critical since it involves personal data relating to the vehicle owners, insurance details besides revenue particulars and Demand Collection and Balance Statement.

Though the employees of the Department handle entire data entry at the Departmental counters, yet database administration was handled by the NIC. We noticed that efforts were not made to develop expertise within the Department to handle the database administration function.

The Department stated (October 2011) that training to the staff/officers (concerned to registration branch) for 'VAHAN' had been provided and NIC has been requested for providing the user manual.

#### **3.8.15.2 Delay in transfer of state share**

As per guidelines, the State Transport Commissioner/Principal Secretary (Transport) after compiling the state-wise information send the same through

e-mail to the Ministry by 5<sup>th</sup> of every month. It was stated that this would facilitate early distribution of funds to the States. On verification of the information received from States/Union Territory and MIS from State Bank of India, funds were to be released by the Ministry through Reserve Bank of India, Nagpur on a monthly basis.

We noticed that there was a delay of 93 days for receiving the State share from the Reserve Bank of India for the month of July 2010.

### **3.8.16 Internal Audit**

During the test check of selected offices we noticed that though 'VAHAN' was implemented in the year 2005 (Alwar) itself and was functional in all field offices, yet internal audit was not conducted to get an assurance on the working of the computerised system.

### **3.8.17 Conclusion**

The objective of Computerisation of the Transport Department was aimed at imparting better, efficient and timely service to the users and plugging revenue leakage. However, it was observed that completeness, accuracy and integrity of data entered and processed were not ensured due to deficient application controls coupled with weak supervisory controls. This adversely impacted the correctness and completeness of the National/State Register of Vehicles and Licenses. Several components of the modules were not in operation and software deficiencies were found which necessitated manual intervention for rectification, thereby rendering the system unreliable. Thus, the objectives of implementing 'VAHAN' and 'SARATHI' for better citizen services, improving working of RTOs and enforcement agencies, an efficient and transparent revenue collection, etc. are yet to be fully achieved.

### **3.8.18 Recommendations**

The Government/Transport Department may consider implementing the following recommendations to rectify the deficiencies and improve the system:

- **take immediate measures to fully implement 'VAHAN' and 'SARATHI' system across the State;**
- **strengthen the input and validation control features to ensure that incorrect and incomplete data are not fed into the system;**
- **undertake training of staff and formulate IT Security Policy, Back up Policy, change management procedure and password policy so that the responsibility/accountability of staff be fixed and audit trail maintained for transaction;**
- **there should be check in the system to block the re-entry of the same number;**
- **investigate and rectify all inaccurate/improbable data and system deficiencies in collaboration with NIC;**
- **ensure clubbing of legacy data of registered vehicles and driving licenses with 'VAHAN' and 'SARATHI' on priority; and**
- **cleanse the National/State Registers of incorrect/ incomplete data.**

### **3.9 Other compliance Audit observations**

*During test check of the records of the Transport Department, we noticed several cases of non-levy of tax, fee and penalty. Some of these omissions were pointed out in earlier years but not only the irregularities persist, these remain undetected till an audit is conducted. These cases are illustrative and are based on a test-check carried out by us. We observed that no system existed in the Department to monitor proper maintenance of tax ledgers of registered vehicles to ensure the recovery of tax, fee and other charges. Besides, no return was prescribed to show the number of vehicles from which tax was due but not received. There is need to improve the internal control system including strengthening of internal audit and putting in place a monitoring mechanism by way of periodical returns to ensure collection of tax fee, etc.*

### **3.10 Non-compliance of provisions of the Acts/Rules**

*The provisions of RMVT Act and Rules provide, inter alia, for:*

- (i) Levy and collection of tax on all motor vehicles used or kept for use in the State at the rates prescribed by the State Government from time to time;*
- (ii) levy of one time tax on non-transport vehicles at the rates prescribed by Government from time to time; and*
- (iii) levy of lump-sum tax on all transport vehicles at the rates prescribed and levy of penalty for default in payment.*

*During test-check of the records, we noticed that Departmental authorities did not observe some of the above provisions in cases mentioned in paragraphs 3.10.1 to 3.10.4. This resulted in non-realisation of revenue of ₹ 16.72 crore.*

#### **3.10.1 Taxes on motor vehicles not realised**

Under Section 4 of the RMVT Act, 1951 and the rules made thereunder, motor vehicle tax is to be levied and collected on all motor vehicles used or kept for use in the State at the rates prescribed by the State Government from time to time. Further, under section 6 of the Act *ibid*, penalty is leviable on belated payment of tax.

During test check of the registration records, tax ledgers and general index registers of 20 Regional Transport Offices (RTOs) and District Transport Offices (DTOs) for the period 2009-10, we noticed (between June 2010 and March 2011) that motor vehicle tax and special road tax in respect of 4,946 vehicles for the period between April 2006 and March 2010 were not paid by the owners of these vehicles. There was nothing on record to show that the vehicles were off the road or were transferred to any other District/State. This resulted in non-realisation of tax amounting to ₹ 15.73 crore as mentioned below. Besides the tax, penalty is

also leviable till date of actual payment of tax:

Sl. No.	Category of vehicles	No. of vehicles	Period of tax	Amount (₹ in crore)	Name of offices
1.	Goods vehicles	1,884	April 2007 to March 2010	3.32	RTOs Ajmer, Alwar, Bikaner, Chittorgarh, Dausa, Jodhpur, Kota, Pali, Sikar and Udaipur; DTOs Bharatpur, Bhilwara, Hanumangarh, Jaipur (goods vehicles), Jhalawar, Jhunjhunu, Kotputli, Nagaur, Sriganganagar and Tonk.
2.	Contract carriages (seating capacity upto 13 persons excluding driver)	1,456	April 2006 to March 2010	3.28	RTOs Ajmer, Alwar, Bikaner, Chittorgarh, Dausa, Jodhpur, Kota, Pali, Sikar and Udaipur; DTOs, Bharatpur, Bhilwara, Hanumangarh, Jhalawar, Jhunjhunu, Kotputli, Nagaur, Sriganganagar and Tonk.
3.	Contract carriages (seating capacity more than 13 persons excluding driver)	174	April 2006 to March 2010	3.60	RTOs Ajmer, Bikaner, Chittorgarh, Dausa, Jodhpur, Pali, Sikar and Udaipur; DTO Jhunjhunu.
4.	Stage carriages	235	April 2008 to March 2010	1.02	RTOs Alwar, Jodhpur, Sikar and Udaipur; DTOs Jhalawar, Jhunjhunu, Nagaur and Sriganganagar.
5.	Articulated goods vehicles	502	April 2007 to March 2010	1.82	RTOs Ajmer, Bikaner, Chittorgarh, Dausa, Jodhpur, Sikar and Udaipur; DTOs Bharatpur, Bhilwara, Jaipur (goods vehicles), Jhunjhunu, Kotputli, Nagaur, Sriganganagar and Tonk.
6.	Passenger vehicles kept without permits	174	April 2007 to March 2010	1.17	RTOs Ajmer, Alwar, Bikaner, Kota and Udaipur, DTOs Hanumangarh, Jhunjhunu, Kotputli, Nagaur and Sriganganagar.
7.	Dumpers/ tippers	464	April 2007 to March 2010	1.23	RTOs Ajmer, Alwar, Bikaner, Dausa, Jodhpur, Kota, Sikar and Udaipur; DTOs Bharatpur, Bhilwara, Jaipur (goods vehicles), Jhalawar, Jhunjhunu and Nagaur.
8.	Private service vehicles	57	October 2006 to March 2010	0.29	RTO's Bikaner and Udaipur.
<b>Total</b>		<b>4,946</b>		<b>15.73</b>	

Similar cases of non/short recovery of taxes on motor vehicles ₹ 13.94 crore were also included as paragraph no. 3.8.1 in the Report of the Comptroller and Auditor General of India (Revenue Receipts) Government of Rajasthan for the

year 2009-10. The Department had accepted the audit observations and ₹ 5.32 crore had been recovered upto December 2011.

In terms of provisions of paragraph 5.7.10 of the Departmental Manual, the Department is required to issue demand notice in cases of vehicles where the tax has not been deposited/short deposited. Such demand notices were required to be entered in Demand and Collection Register. Further, in cases of vehicles where tax has not been paid, the list of such vehicles with route details along with tax due is required to be intimated to the enforcement branch for their recovery. Furthermore, in respect of vehicles where current/arrears of tax has not been deposited and these vehicles are not in use, action to recover the arrears from the movable/immovable property of vehicle owners is required to be taken.

When we pointed out this (between July 2010 and March 2011), the Government stated (September 2011) that in respect of 1161 vehicles ₹ 2.72 crore had been recovered.

### 3.10.2 Short realisation of lump sum tax in respect of transport vehicles

Under section 4-C of the RMVT Act, 1951, a lump sum tax on all transport vehicles was to be levied at the rates prescribed by notification from time to time by the State Government. The lump sum tax could be paid in full or in three equal instalments within a period of one year. Further, under section 6 of the Act *ibid*, penalty was leviable on late payment of tax.

(i) During test check of the registration records and tax ledgers of three RTOs<sup>6</sup> for the years 2009-10, we noticed (between July 2010 and February 2011) that in respect of 112 transport vehicles, in which option of payment of lump-sum tax in three equal instalments was given between March 2006 and September 2009, the owners of these

vehicles did not pay the balance one or two instalments. The taxation officers did not initiate any action to realise the amount of tax due. This resulted in non-realisation of lump sum tax amounting to ₹ 26.21 lakh. Besides the tax, penalty is also leviable till date of actual payment of tax.

When we pointed out this (between August 2010 and March 2011), the Government stated (November 2011) that in respect of 47 vehicles ₹ 9.34 lakh had been recovered.

(ii) During test check of the registration records and tax ledgers of the RTO, Pali for the year 2009-10, we noticed (December 2010) that in respect of 74 transport vehicles, the taxation officer had computed lump sum tax at lower rate. This resulted in short realisation of lump sum tax amounting to ₹ 16.25 lakh.

When we pointed out this (January 2011), the Government stated (November 2011) that in respect of 27 vehicles ₹ 5.55 lakh had been recovered.

---

<sup>6</sup> Dausa, Jodhpur and Pali.

### 3.10.3 Short levy of one time tax in respect of non-transport vehicles

By issue of notification dated 27.3.2006 under section 4(1) (b) of the RMVT Act, 1951, the State Government prescribed the rates of one time tax to be levied on non-transport vehicles. Further, under section 6 of the Act *ibid*, penalty was leviable on late payment of tax.

During test check of the registration records and tax ledgers of the DTO, Nagaur for the year 2009-10, we noticed (November 2010) that in respect of 45 non-transport vehicles, one time tax was calculated on lesser cost of vehicles due to non-inclusion of VAT and/or lower rate of tax by taxation officer. This resulted in non-realisation of one time tax amounting to ₹ 6.89 lakh.

When we pointed out this (December 2010), the Government stated (November 2011) that in respect of 4 vehicles ₹ 0.39 lakh had been recovered.

### 3.10.4 Temporary embezzlement and loss of interest due to lack of financial control and monitoring

Rule 5, 7, 45(4) and 170 of the General Financial & Accounts Rules envisage that all money received on behalf of the Government shall be brought in Government accounts without delay. The Administrative Department and Controlling officer are to see whether all the dues of the Government are correctly and promptly assessed, collected, accounted for and paid into the treasury. The unspent outstanding balances, if any, shall be recovered directly, without making any reference to Government servant from his salary, with interest at 18 *per cent* per annum. Proper account of receipt books received, issued, used and their balance shall be kept.

The Transport Commissioner vide office orders dated 9.10.2002 and 23.10.2002 prescribed period for remittance of money in Government account collected by the office, flying squad or tax collection centres as under:

Government money collected by	Prescribed period for remittance of money
Office	Next day of money received
Flying squad and tax collection centres	(i) Upto ₹ 1 lakh: once in a week (ii) More than ₹ 1 lakh: as soon as money received.

During test-check of the cash books, receipt books and cash/bank revenue collection registers of the RTO, Jodhpur for the year 2009-10, we observed (February and March 2011) following irregularities:

- In sub office, Phalodi and Pipad, entries of cash book were not checked and verified by competent authority. Physical verification of the cash was never carried out by the head of office.
- Entries of cash book, revenue collection register and general index register of vehicles were not verified by the concerned Accountant and Head of office with receipt books/challans submitted by the field staff. In absence of which, we could not ascertain the correctness of various records maintained in this regard.

- Out of tax collected ₹ 18.27 crore (between January 2008 and March 2010) by the flying squads and tax collection centres, ₹ 16.90 crore were deposited late. The delay ranged from one day to 424 days. This resulted in temporary embezzlement of cash as well as loss of interest ₹ 49.65 lakh<sup>7</sup>.

Thus, due to improper accounting of receipt books, irregular maintenance of cash book, lack of physical verification of cash, insufficient supervisory checks and non-observance of prescribed procedure resulted in facilitating temporary embezzlement of the Government money and loss of interest ₹ 49.65 lakh.

When we pointed out this (March 2011), the Government intimated (November 2011) that regular verification of cash book, proper maintenance of revenue collection register and checking thereof by Accountant and other officer has been started.

---

<sup>7</sup> Calculated @ 18 per cent per annum.

***CHAPTER-IV***  
***LAND REVENUE***

### Executive Summary: Chapter - IV

<p>Abnormal increase/decrease in revenue collection</p>	<p>We noticed abnormal increase/decrease in revenue collection during the period 2006-07 to 2010-11. In 2007-08 and 2008-09, the revenue collection increased over previous year by 33.03 <i>per cent</i> and 4.66 <i>per cent</i> respectively and in 2009-10 it decreased by 9.14 <i>per cent</i> over previous year. During 2010-11, the revenue collections increased abnormally by 50.46 <i>per cent</i> over the previous year, due to sale of Government assets and waste land.</p>
<p>Low recovery by the Department in respect of observations pointed out by us in earlier years</p>	<p>During the period 2005-06 to 2009-10 we had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemptions, application of incorrect rate of tax, incorrect computation etc. with revenue implication of ₹ 504.67 crore in 10 paragraphs. The Department/Government accepted audit observations in 10 paragraphs involving ₹ 367.01 crore, of which ₹ 94.21 crore (25.06 <i>per cent</i>) had been recovered till December 2011.</p>
<p>Results of Audit conducted by us in 2010-11</p>	<p>During test-check of the records of the 113 units of Land Revenue Department conducted during the year 2010-11, we noticed non recovery/loss of revenue <i>etc.</i> amounting to ₹ 419.95 crore in 1403 cases. During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 27.39 crore in 1132 cases, of which 921 cases involving ₹ 6.12 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. The Department recovered ₹ 12.64 crore in 220 cases during the year 2010-11, of which 65 cases involving ₹ 0.87 crore related to the year 2010-11 and the rest to the earlier years.</p>
<p>What we have highlighted in this Chapter</p>	<p>In this Chapter we present illustrative cases of ₹ 300.37 crore selected from observations noticed during our test check of records relating to non/short levy, non/short recovery and loss of revenue, where we found that the provisions of the Acts/Rules were not observed.</p> <p>It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.</p>

<p>Our conclusion</p>	<p>Land was allotted at cheaper rates to Hotels in violation of the Tourism Policies framed by the State Government in one case and at agricultural rate instead of commercial rate in another case. Cost of land allotted was not recovered in three cases. Conversion charges were not recovered in two cases.</p> <p>The Department also needs to initiate immediate action to recover the non-realisation, undercharge of tax, etc. pointed out by us, more so in those cases where it has accepted our contention.</p>
-----------------------	---

## CHAPTER-IV: LAND REVENUE

### 4.1 Tax administration

The assessment and collection of land revenue is governed under the Rajasthan Land Revenue Act, 1956 and the Rules made thereunder. Land revenue mainly comprises of rent on land, lease rent, premium, conversion charges, receipts from sales of Government land *etc.*

The powers of the Administrative Department are vested in the Revenue Department of the Government. The overall control of revenue related judicial matters along with supervision and monitoring over revenue officers vests with the Board of Revenue (BOR). The BOR is assisted by 33 Collectors at district level, 191 Sub-Divisional Officers (SDOs) at sub-division level and 244 Tehsildars at Tehsil level, in all matters relating to assessment and collection of land revenue. BOR is also the State level implementing authority for Computerisation of land records in Rajasthan.

### 4.2 Trend of revenue

The budget estimates (BEs), revised estimates and actual revenue realised by the Department during the period 2006-07 to 2010-11 is as under:

(₹ in crore)

Year	Budget estimates	Land revenue collected	Percentage of variation between BEs and collection
2006-07	90.05	116.71	(+) 29.61
2007-08	122.06	155.29	(+) 27.22
2008-09	145.01	162.52	(+) 12.08
2009-10	160.16	147.66	(-) 7.80
2010-11	185.06	222.17	(+) 20.05

The above table indicates that budget preparation activity has not been undertaken with due diligence and estimates were not supported with realistic data except for the year 2009-10 as variation between the BEs and actual collection ranged between (+) 12.08 *per cent* (2008-09) to (+) 29.61 *per cent* (2006-07). Fall of revenue during 2009-10 was mainly due to less receipts on account of conversion charges received from Urban Development Department (UDD) and Sale of land. We noticed abnormal increase in revenue collection during 2010-11 which was due to more receipts received from sale of Government assets and sale proceeds of waste land.

### 4.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2011 amounted to ₹ 75.21 crore, of which ₹ 13.91 crore were outstanding for more than five years. The following

table depicts the position of arrears of revenue as on 31 March 2011.

(₹ in crore)

Year of arrear	Opening balance of arrears as on 1.4.2010	Amount collected during the year 2010-11	Closing balance of arrears as on 31.3.2011
Upto 2005-06	15.96	2.05	13.91
2006-07	38.47	0.33	38.14
2007-08	3.75	0.94	2.81
2008-09	12.78	4.38	8.40
2009-10	49.58	37.63	11.95
<b>Total</b>	<b>120.54</b>	<b>45.33</b>	<b>75.21</b>

The chances of recovery of arrears of ₹ 13.91 crore, outstanding for more than five years, are bleak.

**We recommend that the Government should take appropriate action to recover the arrears.**

#### 4.4 Impact of Audit Reports

During the last five years upto 2009-10, audit through its Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemptions, application of incorrect rate of tax, incorrect computation *etc.*, with revenue implication of ₹ 504.67 crore in 10 paragraphs. Of these, the Department/Government had accepted audit observations in 10 paragraphs involving ₹ 367.01 crore and had since recovered ₹ 94.21 crore (December 2011). The details are shown in the following table:

(₹ in crore)

Year of audit	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	2	40.71	2	30.14	1	16.32
2006-07	1	22.14	1	22.14	-	-
2007-08	4	260.68	4	196.05	3	76.64
2008-09	-	1.13	-	1.13	-	1.13
2009-10	3	180.01	3	117.55	1	0.12
<b>Total</b>	<b>10</b>	<b>504.67</b>	<b>10</b>	<b>367.01</b>	<b>5</b>	<b>94.21</b>

The Government should make efforts for early recovery of balance amount pointed out in the audit reports.

#### 4.5 Working of Internal Audit Wing

There are 15 internal audit parties, each consisting of three members, which conduct audit of offices on annual basis. The position of number of units, planned for audit, actually audited and remained in arrears during the period

from 2006-07 to 2010-11 was as follows:

Year	No. of units	No. of units planned for audit	No. of units actually audited	No. of units in arrear	Percentage of units in arrear
2006-07	567	567	486	81	14
2007-08	567	557	502	55	10
2008-09	570	532	436	96	18
2009-10	570	468	398	70	15
2010-11	570	535	707*	35	5

\*Including arrear.

The arrear in audit was due to vacant posts, engagement of staff in Local Body election duties, leave taken by audit party members etc.

#### 4.6 Results of Audit

During test-check of the records of the 113 units of Land Revenue Department conducted during the year 2010-11, we noticed loss of revenue *etc.* amounting to ₹ 419.95 crore in 1403 cases. Details are as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-recovery of price of command/uncommand/custodian/ceiling land <i>etc.</i>	162	70.29
2.	Non-recovery of premium and rent from Central/State Government Departments/undertakings	267	306.88
3.	Non-recovery of conversion charges from 'Khatedars'	297	1.63
4.	Non-regularisation of cases of trespassers on Government land	181	6.13
5.	Other irregularities	496	35.02
<b>Total</b>		<b>1403</b>	<b>419.95</b>

During the year 2010-11, the Department accepted underassessment and other deficiencies of ₹ 27.39 crore in 1132 cases, of which 921 cases involving ₹ 6.12 crore were pointed out in audit during the year 2010-11 and the rest in earlier years. The Department recovered ₹ 12.64 crore in 220 cases during the year 2010-11, of which 65 cases involving ₹ 0.87 crore related to the year 2010-11 and the rest to the earlier years.

A few illustrative cases involving ₹ 300.37 crore are mentioned in the following paragraphs.

#### **4.7 Audit observations**

*During test-check of the records of the Land Revenue Department, we observed non/short levy/recovery of demand of revenue as mentioned in the succeeding paragraphs of this chapter. In particular we noticed inadequate procedures and systems, which did not ensure that Government land was allotted and possession given to the allottees only on payment of the requisite rates as defined by Government in its various policy directives. We saw that Central Departments were put in possession of Government land without recovery of cost of land as per Government directives. Some omissions were pointed out in earlier years but not only did the irregularities persist, these remain undetected till an audit is conducted. These cases are illustrative and are based on a test-check carried out by us. There is need for the Government to improve the internal control system including strengthening of internal audit in order to avoid recurrence of such cases.*

#### **4.8 Non-compliance of provisions of Rules/Circulars**

*The Rajasthan Land Revenue Act, 1956 and the rules made thereunder/ notifications of the Government provide for allotment/conversion of land inter alia under the provisions of :*

- 1. Tourism Unit Policy, 2007;*
- 2. Circular dated 2 March 1987 issued by Revenue Department, Government of Rajasthan;*
- 3. Rajasthan Industrial Areas Allotment Rules, 1959; and*
- 4. Rajasthan Land Revenue (Conversion of Agricultural Land for Non-agricultural purposes in Rural Areas) Rules 2007.*

*During test check of the records, we noticed that Departmental authorities did not observe some of the provisions of policies/rules ibid which resulted in non-realisation of revenue of ₹ 300.37 crore as mentioned in succeeding paragraphs.*

#### 4.8.1 Short recovery of cost of land

##### 4.8.1.1 Land for Hotels allotted in violation of New Tourism Policy, 2007

The State Government introduced (27 November 2007) Rajasthan Tourism Unit Policy, 2007 applicable to all types of hotels and tourism units. As per Policy 2007, land to the tourism unit other than star category hotels is to be allotted at special reserve price i.e. 50 per cent of the commercial reserve price of the land of that area. The special reserve price was the base price for disposal of the identified and reserve lands through a process of competitive bidding. Further, as per the policy all the concerned Departments were required to amend respective rules/sub-rules and notifications, according to the policy.

During test check (December 2010 - February 2011) of the records and information provided by Secretary (Revenue Group III), Rajasthan, Jaipur and District Collector (Revenue), Jaisalmer, we noticed that in four cases Government land was allotted (May 2008 to December 2008) for establishment of tourism units i.e. hotel, motel etc. without adopting competitive bidding process. The cost of land was charged as per Rajasthan Industrial Areas Allotment Rules, 1959 (which were previously applicable) instead of cost as envisaged in the Rajasthan Tourism Unit Policy, 2007. In these four cases, the price of land (on the basis of commercial DLC rates as commercial reserve prices of the areas were not made available), worked out to ₹ 675.18 lakh against which ₹ 25.00 lakh were recovered by the Department. This resulted in potential loss of ₹ 6.50 crore to the State exchequer by not applying the new Tourism policy 2007.

Matter was pointed out (December 2010 - February 2011) to Department; their replies were awaited (December 2011). However, we discussed the case with Pr. Secretary (Land Revenue) who during discussion said that they were not sure whether the Tourism Policy, 2007 was notified. The Department did not also respond to our query regarding development of Land Bank by the Gram Panchayats/Local Bodies/JDA as envisaged in the Policy.

#### 4.8.1.2 Non/short recovery of cost of land

As per circular dated 2 March 1987, issued by Revenue Department Government of Rajasthan, cost of Government land allotted to Central Government Departments/organisations in rural/urban areas and its periphery is chargeable as per residential rates of the concerned area prescribed from time to time. If allotment is made for commercial purposes cost is to be charged at commercial rates. As per explanation IV (i) under section 90-B (12) of Land Revenue Act, where any part of village falls within the peripheral belt, the whole village shall be deemed to be within the peripheral belt.

(a) During test check of files relating to allotment of land to Border Security Force (BSF) in the office of the Collector (Revenue), Jaisalmer, we noticed (September 2010) that 12.00 *bigha* Government land of *khasra* 541 at Sum road, Jaisalmer was in possession of the BSF since 1966. This land falls under residential area of municipal limits, hence, cost of land ₹ 7.53 crore,

calculated at prevailing residential DLC rates, was to be charged from the BSF after proper allotment. However, neither allotment of land was made nor cost of the land was recovered resulting in non-recovery of ₹ 7.53 crore.

When we pointed out (September 2010-May 2011), the Collector, Jaisalmer intimated (May 2011) that on the request of BSF, the 12 *bigha* Government land had been allotted to the BSF on payment basis as per circular dated 02.03.1987. Accordingly, a demand notice has been issued (March 2011) to BSF for depositing ₹ 8.66 crore in a period of one month. However, details of recovery have not been intimated (December 2011).

(b) During test check of the records of the Collector, Jaisalmer, we found (September 2010) that 483 *acre* Government land situated at Sum road, Jaisalmer was allotted (27.4.68) to Army. The Army authority did not deposit the cost of land and stated (14 January 1977) that land was no more required, hence allotment was cancelled (September 1989). Later on, the Defence Ministry again requested (October 1989) to allot the land which was in their possession since 1950. As per joint survey by the Army and Revenue authorities, 453.03 *bigha* land valuing ₹ 284.17 crore (calculated as per DLC rates effective from 13.10.2009 for residential land) in Girdhar camp, Jaisalmer was found in possession of the army. However, the matter was still pending (March 2011) and the Government has been deprived of revenue of at least of ₹ 284.17 crore.

When we pointed out (May 2010), Government intimated (December 2011) that a meeting with Civil Military Liaison Conference was held (September 2011) and army authority given consent to deposit the objectionable amount as per current DLC rates. We are awaiting further progress of the case.

(c) During test check of the records (January - March 2011) and information provided by Deputy Secretary, Revenue (Group III) Rajasthan, Jaipur and District Collector (Revenue), Jaipur, we found that the Government issued (December 2009) a sanction for allotment of 1.20 Hectare (*gair mumkin abadi siwaichak land* of Khasra No. 798) in village Mahachandpura of Tehsil Chaksu to Power Grid Corporation of India Ltd. (PGCIL). The Department demanded and recovered (February 2010) cost of land ₹ 72.00 lakh at residential rate of ₹ 600 per square metre, instead of ₹ 144.00 lakh at commercial rate of ₹ 1200 per square metre, since the activities of the PGCIL were treated by the Government as commercial. Therefore the Corporation should have been charged commercial rates for the land allotted. Charging cost of land at residential rates instead of commercial rates resulted in short recovery of cost of land ₹ 72.00 lakh.

When we pointed out (July 2011) the department intimated (November 2011) that the entire amount has been recovered.

The matter was reported to the Government (January to March 2011); their replies were awaited (December 2011).

#### 4.8.2 Undue favour to firm

As per Rule 3A of the Rajasthan Industrial Areas Allotment (RIAA) Rules, 1959, price of land shall be charged equivalent to the prevailing market price of the same class of agricultural land in the vicinity. Further, Rule 7 of *ibid* rules provides that industries shall be set up within a period of two years, failing which the land shall revert to the Government unless the period is extended by the allotting authorities.

During test check of the records of the Divisional Commissioner, Jodhpur, we found (October 2010) that the Collector Jaisalmer had allotted (27.8.2001) a plot of land admeasuring 8.08 *bigha* (1,45,926 Square feet) on lease basis for setting up a hotel to M/s Payal Hotel and Resort, Jaisalmer (firm) under the terms and conditions of RIAA Rules, 1959. Allotment of the land was made at a price of ₹ 25.50 lakh as per auction dated 05.12.1998. The

actual possession was handed over on 27 March 2003 and the lease agreement was executed on 31.03.2003. Due to non-compliance of the terms and conditions of allotment, Collector, Jaisalmer ordered (28.12.2006) that the land be reverted back in favour of the Government. The firm submitted a review petition to the Revenue Minister against the above order. The Revenue Minister restored (20.08.2007) the lease subject to recovery of cost of land at current District Level Committee (DLC) rate adjusting the amount already deposited by the firm. Department worked out the cost of land ₹ 21.00 lakh taking into consideration DLC rate for agriculture land ₹ 2.50 lakh per *bigha* instead of applying commercial DLC rates because the initial allotment of land

was made through auction like a commercial plot. Since the firm had already deposited ₹ 25.50 lakh as auction amount on 04.12.1998 and 24.01.1999, the Department restored (17.10.2007) the lease deed of the land without recovering any cost. The cost of the land as per commercial rates by DLC of industrial area at ₹ 500 per square feet worked out to ₹ 729.63<sup>1</sup> Lakh. Thus, incorrect application of DLC rates resulted in short levy of ₹ 7.04<sup>2</sup> crore.

The matter was brought to notice of the Department (October 2010) and reported to the Government (April 2011); their replies were awaited (December 2011).

### 4.8.3 Short recovery of conversion charges

As per rules 9 and 16 of the Rajasthan Land Revenue (Conversion of agricultural land for non-agricultural purposes in rural areas) Rules, 2007, conversion charges are to be paid in advance before use of agriculture land for non-agricultural purposes. Conversion charges for commercial purpose are ₹ 10.00 per square meter or 10 *per cent* amount of the DLC rate of agriculture land, whichever is higher. If a person fails to deposit the due amount of conversion charges within the specified time interest at the rate of 12 *per cent* per annum shall be charged for the delayed period.

**4.8.3.1** During test check of the records of offices of the Principal Secretary (Revenue) and Tehsil Kolayat No.1, we found (March 2011) that State Government had allotted (18.10.2007) 79.37 hectare land situated at village Gudda (East) and Chack Bandha No. 1 to M/s Marudhar Power Private Limited (now M/s V. S. Lignite Power Private Limited).

The Commissioner, Colonisation issued (12.06.2008) a demand notice for depositing ₹ 79.37 lakh of conversion charges for use of land as commercial purposes, against which the firm deposited only (13.07.10) ₹ 20.00 lakh. The firm without depositing the conversion charges started using land for non-agricultural purposes from 12 November 2008. The balance recoverable amount ₹ 59.37 lakh and interest of ₹ 17.14 lakh (calculated upto 31 March 2010) on non-deposited demand, had not been recovered from the firm.

The matter was pointed out to the Department and reported to the Government (March 2011), their replies were awaited (December 2011).

<sup>1</sup> ₹ 729.63 lakh (1,45,926 × ₹ 500).

<sup>2</sup> ₹ 7.04 crore (₹ 7.30 crore - ₹ 0.26 crore).

**4.8.3.2** During test check of the records of the Principal Secretary, Revenue and District Collector, Sikar, we found (December 2010) that 7.01 Hectare land (Khasra No. 1452) situated in village Palsana was allotted (January 2003) by the Government to Sikar and Jhunjhunu Milk Production Dairy Federation Ltd. for dairy Plant (commercial use). However neither Collector, Sikar raised the demand of conversion charges of ₹ 13.58 lakh, nor the allottee has applied for conversion of land. This resulted in non-realisation of conversion charges ₹ 13.58 lakh.

Matter was reported to the Government (December 2010); their reply was awaited (December 2011).

***CHAPTER-V***  
***STATE EXCISE***

### Executive Summary: Chapter - V

<p>Increase in tax collection</p>	<p>Revenue collection of the State Excise Department increased from ₹ 1591.09 crore in the year 2006-07 to ₹ 2861.45 crore in the year 2010-11. The increase of revenue collection for the year 2010-11 was 24 <i>per cent</i> over the previous year's collections.</p>
<p>Very low recovery by the Department on observations pointed out by us in earlier years reports</p>	<p>During the period 2005-06 to 2009-10, we had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, application of incorrect rate of tax, incorrect computation of tax etc. with revenue implication of ₹ 128.00 crore in 17 paragraphs. Of these, the Department/Government accepted audit observations in seven paragraphs involving ₹ 32.82 crore and recovered only ₹ 2.31 crore (seven <i>per cent</i>) in seven paragraphs till December 2011.</p>
<p>Result of audit conducted by us in 2010-11</p>	<p>During test-check of the records of 28 units, we noticed non/short recovery /loss of excise duty and licence fee and other irregularities involving ₹ 67.35 crore in 470 cases.</p> <p>The Department accepted non/short realisation and other deficiencies of ₹ 13.64 lakh in 21 cases. The Department recovered ₹ 84.74 lakh in 80 cases of which eight cases involving ₹ 2.06 lakh had been pointed out in audit during the year 2010-11 and the rest in earlier years.</p>
<p>Performance Audit on 'Levy and Collection of Excise Revenue'</p>	<p>We conducted a Performance Audit on '<b>Levy and Collection of Excise Revenue</b>' which had revenue implication of ₹ 292.74 crore of which ₹ 7.91 crore are recoverable and balance ₹ 284.83 crore are notional losses due to lacunae in Act/Rules. The Department accepted non/short realisation and other deficiencies of ₹ 2.05 crore and recovered ₹ 1.85 crore.</p>
<p>What we have highlighted in this Chapter</p>	<p>We noticed that the Department had heavy arrears of revenue pending for more than 10 years. Though it was repeatedly pointed out in various Audit Reports, the Department did not fix norms for minimum yield of spirit from grain. We pointed out system deficiencies like Lacunae in Rules, Blocking of Revenue on account of Permit fees, and non-issue of notifications. We also noticed many cases of non/short levy of excise duty and brand label fee in contravention of Rules. Further, the Department had allowed undue benefit by granting bar licences to Hotels under heritage category and unallowable wastage in production of heritage liquor to a distillery. The Department also had poor control on submission of the Excise Verification certificates.</p>

<b>Our recommendations</b>	<b>The Government may consider:</b> <ul style="list-style-type: none"><li>➤ <b>Fixing norms for minimum yield of spirit from grain;</b></li><li>➤ <b>Correlating allowable wastage with distance;</b></li><li>➤ <b>Charging fees on transfer of power of attorney to another person by the licensee;</b></li><li>➤ <b>Issuing guidelines regarding time limit for submission of the Excise Verification certificates and rate of penalty to be levied. Further next despatch of spirit/ liquor may be allowed only after receipt of earlier despatch;</b></li><li>➤ <b>Advertising harmful effects of liquor/ Lanced Poppy Heads / Bhang to the public at large to implement temperance policy effectively; and</b></li><li>➤ <b>Strengthening internal control mechanism for better financial management.</b></li></ul>
----------------------------	--

## CHAPTER-V: STATE EXCISE

### 5.1 Tax administration

State Excise revenue comprises receipts derived from any payment, duty, fee, tax, fine or confiscation imposed or ordered under the provisions of the Rajasthan Excise Act, 1950 and Rules made thereunder. It also includes revenue from manufacture, possession and sale of liquor, bhang and lanced poppy heads.

### 5.2 Cost of collection

The gross collection of the revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the period from 2006-07 to 2010-11 along with the relevant all India average percentage of expenditure on collection to gross collection for same period are as follows:

(₹ in crore)

Sl. no.	Year	Gross collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage
1.	2006-07	1,591.09	42.52	2.67	3.30
2.	2007-08	1,805.12	48.51	2.69	3.27
3.	2008-09	2,169.90	64.46	2.97	3.66
4.	2009-10	2,300.48	85.74	3.73	3.64
5.	2010-11	2861.45	87.45	3.06	NA

The percentage of cost of collection of State excise revenue to gross collection had always been on lower side upto 2008-09 but was on higher side in 2009-10 in comparison to all India average percentage.

### 5.3 Impact of Audit Reports

We, through our Audit Reports of the past five years had pointed out cases of non/short levy, non/short realisation, under assessment/loss of revenue, application of incorrect rate of tax, incorrect computation of tax *etc.*, with revenue implication of ₹ 128.00 crore in 17 paragraphs. Of these, the Department/Government had accepted audit observations in seven paragraphs involving ₹ 32.82 crore and had since recovered (December 2011) ₹ 2.31 crore in seven paragraphs as shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number of paragraphs	Amount
2005-06	2	31.62	1	31.35	1	0.85
2006-07	5	19.88	-	-	-	-
2007-08	4	29.18	4	0.96	4	0.95
2008-09	4	45.44	2	0.42	2	0.42
2009-10	2	1.88	-	0.09	-	0.09
<b>Total</b>	<b>17</b>	<b>128.00</b>	<b>7</b>	<b>32.82</b>	<b>7</b>	<b>2.31</b>

## 5.4 Results of Audit

On test-check of the records of 28 units of the State excise Department conducted during the year 2010-11, we noticed non/short recovery/loss of excise duty and licence fee and other irregularities involving ₹ 67.35 crore in 470 cases. A Performance Audit on '**Levy and Collection of Excise Revenue**' was also conducted which has revenue implication of ₹ 7.91 crore. Details are as under:

Sl. No.	Category	Number of cases	Amount (₹ in crore)
1.	<b>Levy and Collection of Excise Revenue (A Performance Audit)</b>	1	7.91
2.	Non/short realisation of excise duty and licence fee	374	62.54
3.	Loss of excise duty on account of excess wastage of liquor	85	4.66
4.	Other irregularities	11	0.15
<b>Total</b>		<b>471</b>	<b>75.26</b>

During the year 2010-11, the Department accepted non/short realisation and other deficiencies of ₹ 13.64 lakh in 21 cases. The Department recovered ₹ 84.74 lakh in 80 cases of which eight cases involving ₹ 2.06 lakh had been pointed out in audit during the year 2010-11 and the rest in earlier years.

After issue of factual statement, the Department intimated (July 2011) recovery of ₹ 1.85 crore pertaining to a single observation pointed out during 2010-11.

We conducted a Performance Audit on '**Levy and Collection of Excise Revenue**' with financial impact of ₹ 7.91 crore which is mentioned in the succeeding paragraphs.

## 5.5 Performance Audit on 'Levy and Collection of Excise Revenue'

### Highlights

- The Excise Department did not have any strategy plan/Action plan for the recovery of old arrears of revenue amounting to ₹ 218.37 crore.  
(Paragraph 5.5.8)
- The Rules do not prescribe time limit for submission of Excise Verification Certificate and the penalty to be levied for its non-submission.  
(Paragraph 5.5.9.1)
- Non-fixation of norms for minimum yield of spirit from grain led to potential loss of excise duty of ₹ 284.17 crore due to short yield of spirit.  
(Paragraph 5.5.9.4)
- The Departmental Officials charged license fee for hotels bars under "heritage hotels category" rate without certification of their status as heritage hotels from the Government of India and the State Committee. Issuing of *ad hoc* licences, in haste, cost the exchequer ₹ 1.69 crore, which needs to be recovered from the licensees.  
(Paragraph 5.5.11.1)
- The Department failed to take action against illegal transfer/misuse of shop licenses in the guise of power of attorneys.  
(Paragraph 5.5.11.2)
- Due to non-renewal of Bonded Warehouse license, the Department have also foregone revenue of ₹ 55.00 lakh during the period 2005-06 to 2009-10.  
(Paragraph 5.5.12)
- Non-submission of Excise Verification Certificate by the licensees within the prescribed time limit, was not mentioned by the Department and neither was penal action taken under the Rules.  
(Paragraph 5.5.17.1)
- 5,181 bank drafts for ₹ 22.89 crore received on account of security deposits, application fee and contract money were deposited late in the Government Accounts with delay ranging from two to 140 days, in contravention of Rule 5 & 7 of General Financial and Accounts Rules.  
(Paragraph 5.5.20)
- In absence of any records of internal inspections at the Excise Commissioner's office there was no monitoring and strengthening of internal control mechanisms of the Department.  
(Paragraph 5.5.22)

### 5.5.1 Introduction

State Excise duty is levied by the States under Entry 51 of the List II - State List of VII Schedule of the Constitution. In the State of Rajasthan, excise revenue comprises receipts derived from any payment, duty, fee, tax, fine or confiscation imposed or ordered under the provision of the Rajasthan Excise Act, 1950 (RE Act), Rules and Manuals made thereunder. It also includes revenue from manufacture, possession and sale of Liquor, *Bhang* and Lanced Poppy Heads (LPH).

The RE Act empowers the State Government to frame a periodical excise policy which prescribes the procedure for fixation of the amount for exclusive privilege (reserve price) for the shop/group of shops of Indian made foreign liquor (IMFL)/Beer, country liquor, LPH and *Bhang*. The Excise Commissioner (EC) is responsible for formulation and implementation of the excise policy.

The licences for vend of whole sale trade of IMFL/Beer are granted through Rajasthan State Beverage Corporation Limited (RSBCL) and retail of excisable articles through the Exclusive Privilege System (EPS) by inviting tenders or auction or negotiation or any other prescribed procedure. In the case of LPH, licences are issued under the Rajasthan Narcotic Drugs and Psychotropic Substances (RNDPS) Rules, 1985.

During 2005-06, eight distilleries, four breweries and 25 bottling plants were in existence. The number of distilleries and breweries increased to 11 and 6 respectively during 2009-10. However there was decrease in the number of bottling plants to 14. The number of bottling plants decreased mainly due to change in the Excise Policy during 2005-06 whereby Government banned the use of Rectified Spirit (RS) on the plea that the quality of IMFL produced by Extra Neutral Alcohol (ENA) is superior. Due to ban on RS the cost of production increased due to which some bottling plants either closed or discontinued production of IMFL.

A Performance Audit on '**Levy and Collection of Excise revenue**' was undertaken to ascertain adequacy and effectiveness of the prevailing systems and procedure for the period from 2005-06 to 2009-10.

### 5.5.2 Organisational set up

At the Government level, the overall control of the State Excise Department (Department) is vested with the Principal Secretary, Finance Department. The Excise Commissioner is the head of the State Excise Department. He is assisted by eight Additional Excise Commissioners – six at zonal headquarters *i.e.* Ajmer, Bikaner, Jaipur, Jodhpur, Kota and Udaipur, one enforcement and one holding charge of administration at Udaipur. There are 34 District Excise Offices (DEOs) for 33 districts and two DEOs (prosecution) at Jaipur and Jodhpur. The enforcement wing of the Department is headed by one Additional Excise Commissioner and Finance wing is headed by Financial Advisor.

### 5.5.3 Audit objectives

We conducted the Performance Audit to get a reasonable assurance that:

- excise duty was levied and collected according to the Act/Rules, manuals and annual State excise policy;
- there was no lacunae in the Act/Rules/Policy or absence of any provisions that impacted the Government revenue;
- adequate system and procedure existed in the Department for timely and correct assessment and collection of excise levies; and
- effective internal control mechanism exists in the Department.

### 5.5.4 Audit Criteria

The performance of the Excise Department was assessed against the provisions of:

- Rajasthan Excise Act, 1950 and notification issued thereunder ;
- Rajasthan Excise Rules, 1956;
- Rajasthan State Excise Manual, 1988;
- Excise and Temperance policies of Rajasthan 2005-06 to 2009-10;
- Rajasthan Distillery Rules, 1977;
- Rajasthan Breweries Rules, 1972;
- Rajasthan Foreign Liquor (Grant of Wholesale Trade and Retail off Licenses) Rules, 1982;
- Rajasthan Excise (Grant of Hotel Bar/ Club Bar Licenses) Rules, 1973;
- Rajasthan Stock Taking and Wastage of Liquor Rules, 1959;
- Rajasthan Narcotic Drugs and Psychotropic Substances Rules, 1985; and
- General Financial and Accounts Rules and Rajasthan Treasury Rules.

### 5.5.5 Scope of audit

A Performance Audit on '**Levy and Collection of Excise Revenue**' covering period upto 2004-05 was incorporated at para 6.2 of the Report for the year ended March 2005, which has been discussed in Public Accounts Committee in November 2011, however, their recommendations are awaited (December 2011). We test checked (July 2010 to March 2011) the records for the years 2005-06 to 2009-10 of 14<sup>1</sup> out of 34 DEOs along with DEO, Prosecution, Jaipur and Excise Commissioner, Rajasthan, Udaipur. These units were selected by adopting probability proportion to size with replacement (PPSWR) random sampling method.

---

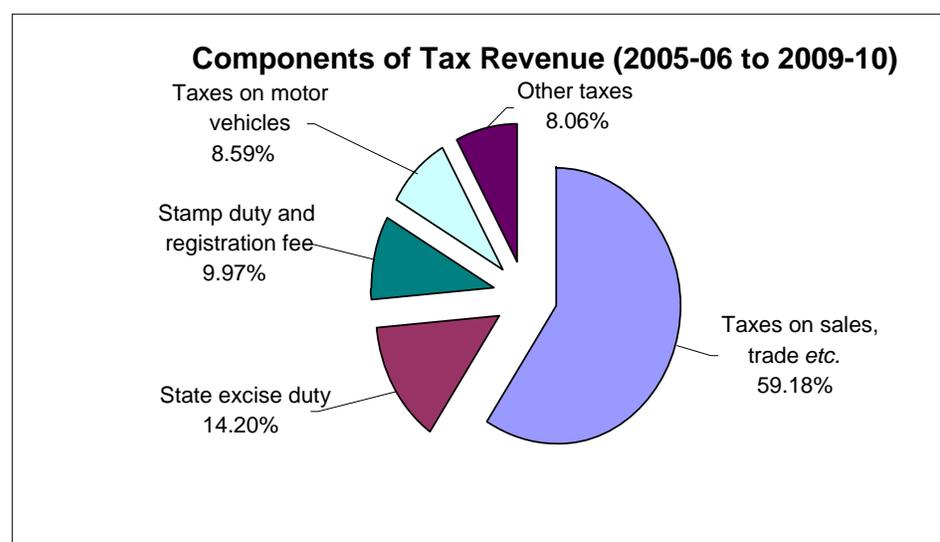
<sup>1</sup> Alwar, Baran, Bundi, Chittorgarh, Hanumangarh, Jhalawar, Jaipur (City), Jaipur (Rural), Kota, Nagaur, Pratapgarh, Sikar, Sriganganagar and Udaipur.

### 5.5.6 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the State Excise Department in providing necessary information for audit. An entry conference was held on 16 September 2010 with Secretary, Finance (Excise) Department and Excise Commissioner to explain the audit objectives and methodology. The audit findings were reported to Government in July 2011. An exit conference was held on 18 October 2011 with the Secretary, Finance (Excise) Department to discuss major audit findings.

### 5.5.7 Trend of revenue

State Excise is one of the major components of the State tax receipts and it forms around 14-15 per cent of the total tax receipts. The share of various components of tax revenue of the State during the year 2005-06 to 2009-10 is shown in the pie chart below:



The budget estimates and actual receipts of the State Excise Department during the years 2005-06 to 2009-10 were as follows:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess (+)/shortfall(-)	Percentage of variation in actual receipts over last year	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	1,508.00	1,521.80	(+) 13.80	-	9880.23	15.40
2006-07	1,600.00	1,591.09	(-) 8.91	(+) 4.55	11,608.24	13.71
2007-08	1,720.00	1,805.12	(+) 85.12	(+) 13.45	13,274.73	13.60
2008-09	1,910.00	2,169.90	(+) 259.90	(+) 20.21	14,943.75	14.52
2009-10	2,200.00	2,300.48	(+) 100.48	(+) 6.02	16,414.27	14.02
<b>Total</b>	<b>8938.00</b>	<b>9388.39</b>	<b>(+) 450.39</b>	<b>-</b>	<b>66,121.22</b>	<b>14.20</b>

Percentage of variation in actual receipts over last year had an increasing trend during 2006-07 to 2009-10. There were significant increases in year 2007-08 and 2008-09 due to changes in the Excise policy during these two years such as levy of 5 per cent surcharge on duty of IMFL, revision of excise duty on country liquor from ₹ 2 to ₹ 70 per BL, introduction of new slab 43 and 50 per cent *ad volerum* duty on IMFL.

### 5.5.8 Arrears of revenue

There were 253 cases, involving ₹ 218.37 crore, pending for recovery as on 31 March 2010. The age-wise break up is as under:

Period	Outstanding balance as on 31.3.2005		Outstanding balance as on 31.3.2010		Recovery during Performance Audit period (₹ in crore)	Percentage of recovery
	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)		
More than 20 years	168	12.75	76	8.75	4.00	31.37
More than 10 years and upto 20 years	70	43.96	53	34.67	9.29	21.13
More than 5 years and upto 10 years	56	156.63	55	153.48	3.17	2.02
Upto 5 years	-	-	69	21.47	-	-
<b>Total</b>	<b>294</b>	<b>213.34</b>	<b>253</b>	<b>218.37</b>	<b>16.46</b>	<b>7.72</b>

We observed that out of ₹ 218.37 crore, ₹ 196.90 crore are outstanding for more than five years. The outstanding balance pertains to very old period starting from the year 1962-63 and ₹ 43.42 crore are pending for more than 10 years.

The Department stated (September 2011) that as on 31 March 2011 out of total dues, ₹ 80.18 crore in 35 cases are pending in the courts. In 84 cases recovery amounting to ₹ 46.93 crore could not be affected as debtors were not having any assets. In 73 cases process of recovery amounting to ₹ 90.30 crore had been started through Land Revenue Act but due to joint title of the family on assets and non-obtaining the bid in rural areas, recovery was not affected. Further out of these 73 cases, 10 cases having dues of ₹ 47.50 crore pertained to debtors residing in other states for which the Department was not receiving adequate co-operation.

The Government during the exit conference (18 October 2011) further stated that out of total cases, 35 cases in which involvement of revenue was ₹ 138.16 crore (63 per cent) pertained to settlement period of 1999-2001. During that period the Government had to cancel the licences as dues were not deposited by the licensees.

The Department however did not intimate (October 2011) the number and outcome of Revenue Recovery Certificate proceeding started by them. Thus there was no effective strategy for recovery of the old arrears of revenue.

## Audit findings

### 5.5.9 System Deficiencies

The RE Act empowers the State Government to frame a periodical excise policy which prescribes the procedure for fixation of the amount for exclusive privilege (reserve price) for the shop/group of shops of Indian made foreign liquor (IMFL)/Beer, country liquor, LPH and *Bhang*. The EC is responsible for formulation and implementation of the excise policy.

The licences for vend of whole sale trade of IMFL/Beer are granted through RSBCCL and retail of excisable articles through the EPS by inviting tenders or auction or negotiation or any other prescribed procedure. In the case of LPH, licences are issued under the RNDPS Rules, 1985.

#### 5.5.9.1 Lacunae in Rules

Rule 37(2) of the RE Rules 1956 provides that if the Excise Verification Certificate is not submitted within the prescribed time limit or any of the conditions of the bond have been infringed, the District/Assistant Excise Officer of exporting district shall recover from the executants the penalty due under the bond.

During test check of the records of DEOs Alwar, Jaipur (Rural) and Sikar, we observed that the prescribed format of bond to be submitted along with the Excise Verification Certificate (EVC) did not have any mention of time limit for submission of the EVC, the amount or rate of penalty to be recovered on failure to submit the EVC and on any other violation in conditions of the bond. As a result

the Department was not able to enforce any time limit for submission of the EVC and amount or rate of penalty to be levied under rule 37(2) of the *ibid* Rules.

When we pointed out this, the Government agreed (August 2011) with the opinion of audit and assured that rules would be modified shortly.

**The Government may fix time limit for submission of the EVC and rate for penalty to be levied.**

#### 5.5.9.2 Blocking of Revenue on account of Permit fees

During test check of the records of the EC office, we observed that M/s United Spirits Limited, Udaipur and Alwar units (petitioner) had filed petition against Government of Rajasthan, EC and DEOs Alwar and Udaipur (respondents) in Rajasthan High Court, Jaipur regarding fee on the transportation of the industrial spirit, except the spirit fit for human consumption, within the State from one location to another.

The Department received notice in EC office on 26.11.2009. On 27.11.2009 itself the Department appointed DEO (Prosecution), Jaipur to plead the case on their behalf. Audit observed that appointment order was served to DEO (Prosecution) Jaipur on 7.12.2009 even though the date of hearing was 04.12.2009. As a result the Hon'ble Rajasthan High Court, Jaipur passed ex-parte interim order (4.12.2009) in favour of petitioner directing respondents not to charge fee on the transportation of the industrial spirit, except the spirit fit for human consumption, within the State from one location to another, till next date of hearing. As a result of the continued stay the Government was deprived of permit fee of ₹ 65.60 lakh (calculated upto 3/2010).

When we pointed out this, the Department replied (August 2011) that they were not able to ascertain the date of hearing as the cause list did not mention the name of the Departmental lawyer.

We do not accept the reply as knowing the revenue implications the Department should have made efforts to represent the Department in the court.

### 5.5.9.3 Non-issue of notification under section 71(2) of the Rajasthan Excise Act regarding treatment of Rajasthan State Ganganagar Sugar Mill as one unit

Rule 69(3) of the Rajasthan Excise Rules, 1956 stipulates that every manufacturer of country liquor, IMFL and Beer shall have to get labels (irrespective of size, viz. quart, pint or nip) of brands intended to be sold or manufactured in Rajasthan, approved and recorded with the Excise Commissioner and a fee of ₹ 25,000 shall be payable per brand per year or part thereof.

During test check of the records of 10 DEOs<sup>2</sup>, we found that 10 manufacturing units of country liquor of Rajasthan State Ganganagar Sugar Mill (RSGSM) manufactured and sold 93 brands of country liquor without registration of brand labels during the years 2005-06 to 2009-10. This infringement of the rule resulted in non-realisation of

brand label fees amounting to ₹ 23.25 lakh.

When we pointed out this, the Government stated (August 2011) that as per Government letter dated 26.02.2005 the RSGSM had been treated as one unit.

We do not accept the reply because as per rule 69(3) of RE Rules, the brand label fee is recoverable in respect of each brand manufactured or sold by every manufacturer of country liquor and all manufacturing units of RSGSM had separate licence for manufacture of country liquor. We also noticed that the letter dated 26.02.2005 is issued at the level of Deputy Secretary whereas any exemption in duty, tax or fee is allowable only after issuing notification under section 71(2) of RE Act.

During exit conference (18.10.2011) the Government agreed to notify the letter dated 26.02.2005 in which RSGSM had been treated as one unit.

<sup>2</sup> Alwar, Baran, Bundi, Chittorgarh, Hanumangarh, Jaipur (Prosecution), Kota, Sikar, Sriganganagar and Udaipur.

#### 5.5.9.4 Non-fixation of norms for yield of spirit from grain

The Rajasthan Distillery Rules, 1977 prescribe management of distilleries, issue of spirit and instructions for maintaining forms and registers. The Rules, however, do not prescribe any norms for production of spirit from grain.

After 2005-06, use of molasses was gradually discontinued and use of grain started in spirit production. According to the paragraph 39 – ‘spirit yield’s of the Technical Excise Manual, 7.7 gallon of alcohol is obtained from 220 pounds (one quintal) of rice, which converts into 61.2 London proof litre per quintal of rice. This was neither followed by the Department nor any norms were provided in the Rules.

During test check of the records, we noticed that five distilleries<sup>3</sup> producing spirit from grain i.e. rice or other, obtained 63.4 London proof litre (LPL)<sup>4</sup> to 92.53 LPL spirit per quintal, while two distilleries<sup>5</sup> yielded 38.21 LPL to 57.18 LPL spirit per quintal. If we take the yield of 61.2 LPL spirit per quintal as provided in the Technical Excise Manual<sup>6</sup>, the two distilleries made short production of 1,67,16,075.17 LPL spirit during the years 2006-07 to 2009-10 involving excise duty of ₹ 284.17 crore as mentioned below:

Sl. No.	Name of distillery	Year	Grain (Rice) used (in quintals)	Actual quantity obtained (in LPL)	Quantity as per minimum yield 61.2 LPL per quintal	Short production (in LPL)	Excise duty involved @ ₹ 170/- per LPL (in ₹)
1	Vintage Distillers Ltd., Alwar	2006-07	108387.00	4141960.66	6633284.40	2491323.74	423525036
		2007-08	131676.00	5135388.15	8058571.20	2923183.05	496941119
		2008-09	221691.00	8477273.24	13567489.20	5090215.96	865336713
		2009-10	274332.00	10973291.60	16789118.40	5815826.80	988690556
2	United Spirits Ltd., Udaipur	2006-07	98284.00	5619455.18	6014980.80	395525.62	67239355
<b>Total</b>			<b>834370.00</b>	<b>34347368.83</b>	<b>51063444.00</b>	<b>16716075.17</b>	<b>2841732779</b>

Source: Information provided by the Department.

Due to non-fixation of norms of minimum yield of spirit, potential loss of revenue of ₹ 284.17 crore as excise duty cannot be ruled out. The issue regarding non-fixation of norms by the Department for spirit, beer and LPH had been brought to the notice of the Government by earlier Audit Reports (Revenue Receipts) of the year 1995-96, 2000-01 and 2005-06 respectively.

When we pointed out this, the Government stated (November 2011) that a committee has been constituted for framing norms.

<sup>3</sup> Agri Bio-tech Ajitgarh, Globus Spirits Behror, HSB Agro Industries Reengus, Pernord Record Behror and United Spirits Limited, Alwar.

<sup>4</sup> "London proof litre" means a litre containing liquor of strength of London proof.

<sup>5</sup> Vintage Distillers, Alwar and United Spirits Limited, Udaipur.

<sup>6</sup> Prepared under the orders of the Government of India by Lt. Col. C.H. Bedford and commonly referred to in the Excise Department.

**The Government may consider necessary amendments in the Act/Rules to fix norms for minimum yield of spirit from raw material.**

### **Compliance Deficiencies**

#### **5.5.10 Wastage of spirit**

##### **5.5.10.1 Loss of revenue due to excess wastage of spirit**

Sub rule 1(b) of rule 5-A of the Rajasthan Stock Taking and Wastage of Liquor Rules, 1959 provides a maximum of 2.5 *per cent* (in pot stills) free allowance for wastage in the process of re-distillation of spirit for the purpose of manufacturing fruit spiced spirit or Silent Spirit required for manufacture of Indian Made Foreign Liquors and other quality liquors.

During test check of the records of M/s HSB Agro Industries Limited (a distillery under the jurisdiction of DEO Sikar), we found that the unit showed an excess wastage of 1,594.11 LPL spirit for the period 2007-08 to 2009-10, over and above the maximum wastage permissible in the Rules, during the re-distillation process for production of heritage liquor which involved excise duty of ₹ 5.58 lakh at the rate of ₹ 350 per LPL.

When we pointed out this, the Government stated (August 2011) that an additional two *per cent* wastage had been allowed in production of Kesar Kasturi. Earlier Kesar Kasturi was the only heritage brand however now other heritage liquor brands have also come into the market having the same process of production as in the case of Kesar Kasturi. As all heritage liquor have to undergo the same process of production, the distillery has taken the wastage accordingly.

We do not accept the reply as the rules allowed additional wastage specifically in the case of Kesar Kasturi only.

##### **5.5.10.2 Non-recording actual transit loss of spirit**

Rule 5 of the Rajasthan Stock Taking and Wastage of Liquor Rules, 1959 provides for an allowance for the actual loss in transit due to leakage or evaporation of spirit transported in metal vessels under bond at the rate of 0.2 *per cent* to 0.4 *per cent* as per duration of journey. The loss will be determined by deducting from the quantity of spirit dispatched from the distillery, the quantity received at the place of destination, both quantities being stated in terms of London Proof. The allowance will be calculated on the quantity contained in each vessel comprised in a consignment after actually gauging and proving. Rule 5(5) provides for levy of excise duty on wastage exceeding permissible limit.

During test check of the records maintained at various distilleries, bottling plants and reduction centres of RSGSM in seven DEOs<sup>7</sup>, we found that 1,545.11 lakh LPL RS was shown as received at destination against dispatch

<sup>7</sup> Alwar, Baran, Hanumangarh, Jaipur (Rural), Sikar, Sriganganagar and Udaipur.

of 1,547.97 lakh LPL RS and 2.86 lakh LPL RS was recorded as wastage taking maximum permissible wastage allowance without considering the actual loss, preparing *panchnama* or *fird* report and recording reasons of the actual loss. During the test check it was found that transit wastage in case of short distances of one to two kms as well as long distances of 500 kms were same and up to maximum permissible limit.

During the exit conference (October 2011), the Department agreed to the observation and to deliberate upon breakage with regard to the distance.

### **5.5.11 Grant of licences**

#### **5.5.11.1 Irregular sanction of hotel bar licences in heritage category**

As per the Rajasthan Excise (Grant of Hotel Bar/Club Bar Licences) Rules, 1973, hotels are broadly categorised in three categories – luxury, heritage and other for the purpose of recovery of licence fee. Heritage hotels are the hotels which are recognised by the Government of India as heritage hotels. As per notification dated 1.4.2006 issued by the State Government, heritage hotels are to be further categorised in ‘A’, ‘B’ and ‘C’ categories by a committee constituted by the State Government. Licence fee of hotel bar licence for each category of heritage hotels is different.

During test check of the records of the EC office, we found that during the years 2005-06 to 2008-09, 23 hotels were issued *ad hoc* licences by the EC (renewed in following years) under heritage category. We saw that these hotels were not recognised as heritage hotels by the Government of India. However, the Department recovered the licence fee at the

lowest rate applicable for the ‘C’ category of heritage hotels. The difference of the licence fee worked out to ₹ 1.69 crore comparing the rates prescribed for other hotels i.e. the lowest in the category of hotels and the rates as charged by the Department. The charging of licence fee at the heritage hotels rate without certification of heritage hotels was therefore incorrect.

When we pointed out this, the Government stated (August 2011) that there was no need to take heritage certificate from the Government of India as the State Government had framed guidelines for categorising the hotels as heritage hotels.

We do not accept the reply as heritage certificate from the Government of India is mandatory requirement for categorisation as per the Rules. The State Government only categorises Heritage Hotels through a committee constituted for this purpose. However during the cited period, the State Government had not even constituted a committee for categorising Heritage Hotels. The Excise Department therefore acted in haste in issuing the *ad hoc* licences, which has cost the exchequer ₹ 1.69 crore, which needs to be recovered from the licensees.

**We recommend that the licences in heritage category may not be sanctioned without certificate of heritage issued by the Government of India and categorisation given by the Committee.**

### 5.5.11.2 Misuse of licenses in the guise of Power of Attorney

There is no provision in Rajasthan Excise Rules, 1956 to run the shops of liquor/LPH by making power of attorney in favour of other person. However, Rule 72(b) envisages that licence of selling of liquor/LPH may be transferred by making 50 per cent payment of licence fee to the Government. Accordingly, a shop of liquor/LPH run by the person for whom power of attorney executed by original licensee will be treated as illegal transfer/misuse of licence. We noticed that Rule 14 of Andhra Pradesh Excise (Lease of Right of Selling by Shop and Conditions of Licence) Rules, 2005 provide that no person shall be entitled to obtain lease of more than one shop.

During test check of the records of the DEOs Bundi, Chittorgarh and Jaipur (City), we noticed that in respect of 28 shops, the licensees misused their licences by allowing others to run the shops unauthorisedly by making power of attorney. However, the Department did not charge any fees on this transfer of licence.

When we pointed out this, the Government stated (November 2011) that as per the present Law the licensee can execute power of attorney. The licensees had

given power of attorney for managing their business only, the ownership or legal liabilities and rights remained with the licensee.

We do not accept the reply as the licensees transferred their legal and administrative rights to other persons for the whole year of licence in guise of power of attorney which tantamounted to transfer of licence.

**We recommend that fees may be charged for future grant of power of attorney to person other than the licensee.**

### 5.5.12 Non-recovery of licence fee

Section 17 (d) of the RE Act provides that the EC, may establish or licence a warehouse wherein any excisable article may be deposited and kept without payment of duty and Rule 68 (6-C)(c) and 13 of the Rajasthan Excise Rules, 1956 envisage that annual licence fee of ₹ 5.00 lakh for a bottling plant and ₹ 6.00 lakh for wholesale vend by manufacturers of liquor to wholesale vendors at divisional headquarters and ₹ 5.00 lakh for places other than divisional headquarters is payable. Excise Policy 2004-05 and onwards provided for grant of licence to manufacture country liquor to only those private parties who had a licence to work as distillery or bottling plant to bottle IMFL. Besides this according to Rule 68 (12) licence fee ₹ 1.00 lakh was leviable for manufacturing country liquor.

During test check of the records of DEO Sriganganagar and Udaipur, we found that licences for bottling of IMFL was granted to M/s H.H. Bottling Plant, Sriganganagar on 14.01.2005 and to M/s Mahamaya Liquor Industries Private Limited, Udaipur on 30.01.1997. Similarly, licences to establish bonded warehouses were granted to these licensees on 13.01.2005 and

28.01.1991 respectively. The licencees were permitted to fill country liquor after depositing ₹ 1.00 lakh as additional licence fee. We observed that M/s Mahamaya Liquor Industries Private Limited had not renewed the licences for bottling plant and bonded warehouse since 2005-06 and M/s H.H. Bottling Plant renewed the licence for its bottling plant for the year 2005-06 only.

When we pointed out this, the Government stated (August 2011) that point No. 11 of Excise Policy 2006-07 provided that bottling plants which were manufacturing only country liquor were liable to pay ₹ 1.00 lakh as licence fee. They are not manufacturing IMFL so licence fee of bottling IMFL is not chargeable.

The reply of the Government is not correct as:

- (i) Bottling plants were provided additional facility to manufacture country liquor after depositing extra licence fee of ₹ 1.00 lakh.
- (ii) The reason behind non-renewal of licences was attributed to non-bottling of IMFL. However, these bottling plants continued the production of country liquor after depositing licence fee ₹ 1.00 lakh per year. The facility of producing the country liquor only to these bottling plants was irregular as this facility was only permissible to bottling plants which were producing IMFL.
- (iii) Due to non renewal of bonded warehouses licences, the Department has also foregone revenue of ₹ 55.00 lakh during the period 2005-06 to 2009-10.

### **5.5.13 Non collection of data on LPH cultivation**

As per condition no.1 of licences and point no. 8.5 of guidelines of application form of retail and wholesale vend of LPH, no rebate is allowable in licence fee.

During the year 2008-09 the Department showed production of 8,821.18 quintal of LPH on the area of 1,348.95 hectare which gives the rate of 6.54 quintal per hectare. The actual area available for cultivation was 1,829.71 hectare and the Department did not collect the LPH from 480.76 hectare which amounts to 3,144.17 quintal LPH at the rate of 6.54 quintal per hectare. To cover the shortage in LPH collection the State Government allowed (October 2008) import of 3093.38 quintal LPH from other states and also granted rebate in licence fee of ₹ 20.00 per kg to the wholesale licensees and ₹ 180.00 per kg to retail licensees amounting to ₹ 2.34 crore during 2008-09.

When we pointed out this, the Government replied (November 2011) that there was short collection of LPH in 2008-09 as the land allotment for cultivation of opium was reduced in 2008-09 by the Central Government. We do not accept the reply as the Department failed to collect the LPH from the whole allotted land and the rebate on import of LPH was irregular as per conditions of the licence.

### 5.5.14 Loss of revenue due to irregular accounting of spirit

Rule 113 of the Rajasthan Distilleries Rules, 1977 envisages that prescribed registers and forms of account are not to be changed without orders of the EC. All fractions of litre and degree or strength are to be shown to the nearest first point of decimal to maintain uniformity in the system of proof conversion.

During test check of the records of DEO Alwar, we found that two units i.e. Beem Global Spirit (E) Private Limited and Pernord

Record (E) Private Limited, Behror showed in their accounts the strength of spirit upto four decimal points instead of one point, which resulted in short depiction<sup>8</sup> of 2425.295 LPL concentrate spirit in the accounts depriving of excise revenue ₹ 12.13 lakh.

When we pointed out this, the Government stated (August 2011) that the provision of Rule 113 was only for having uniformity in the accounts and not for recovery of the excise duty.

We do not accept the reply as excise duty is calculated on the basis of spirit shown in the accounts and as per the rule 113 it is mandatory to show the spirit up to one decimal point. Further accounting method cannot be changed without explicit orders of EC.

### 5.5.15 Non/short levy of permit fee

#### 5.5.15.1 Non-realisation of permit fee

As per rule 69 (B) of the RE Rules, 1956, permit fee of ₹ 2.50 per BL is payable on RS for manufacture of country liquor and ENA, high bouquet spirit and like spirit/alcohols transported within the State.

During test check of the records of DEOs Jaipur (Rural), Sriganganagar and Udaipur, we found that four bottling plants<sup>9</sup> had imported RS/ENA for manufacturing

of country liquor from distilleries<sup>10</sup> situated in the State, but no permit fee was charged during 2006-07 to 2009-10 on 238 permits involving 45,88,000 bulk litre (BL) of RS/ENA. This resulted in non-realisation of permit fee of ₹ 1.15 crore.

When we pointed out this, the Government stated (August 2011) that the Department in pursuance of point 11 of Excise Policy 2006-07 had issued directions vide its letter dated 12.04.2006 whereby it was decided that 'the local distillers would be allowed to have franchise arrangement with the local bottlers. This arrangement had been allowed to save transportation charges and transfer fee, payable on sale of RS to a bottler since in a franchise

<sup>8</sup> For example, a distillery received 24,133 BL of spirit having strength of 5.1524 over proof. Due to non-accounting of quantity of spirit as per rule 113 of Rajasthan Distilleries Rules 1977, the quantity of spirit was shown as 25,376.43 LPL (24,133x105.1524/100) instead of 25,387.92 LPL(24,133x105.2/100) resulting short depiction of 11.49 LPL.

<sup>9</sup> National Industries Limited, Jetpura, Rajasthan Liquors, Kaladera (Jaipur Rural), H.H. Bottling Plant (Sriganganagar) and Mahamaya Liquor Industries Private Limited (Udaipur).

<sup>10</sup> Globus Spirits Limited, Vintage Distillers Limited (Alwar) and Agribiotech Industries Limited (Sikar).

situation, there would be no sale, as bottler is bottling on behalf of the distiller, the brand of the distiller'. The Government further replied that by its two notifications dated 13.08.2007, permit fees was exempted from 17.9.2005 to 13.8.2007. Subsequently the Government vide its notification dated 5.05.2008 had increased the bottling fees, after which the permit fees were not leviable.

We do not accept the reply as:

- (i) The point 11 of Excise Policy 2006-07 did not pertain to permit fee but to supply of country liquor by RSGSM.
- (ii) The two cited notifications pertained to distilleries having bottling plants in their own premises and were not applicable on other bottlers.
- (iii) The notification dated 5.05.2008 was not about exemption of permit fees but about increase in bottling fees. Till date, no notification has been issued by the Department to discontinue the permit fee for transportation of spirit under franchise arrangement.

Thus, the bottlers have been unduly benefited by the Department.

#### **5.5.15.2 Short levy of permit fee on RS imported for use other than manufacture of liquor**

As per proviso 2 (b) under rule 69 (B) of the Rajasthan Excise Rules, 1956, permit fee ₹ 15 per BL is payable on RS imported for the purpose other than manufacture of liquor *etc.*

During test check of the records of DEOs (Prosecution) Jaipur, Kota, Sriganganagar and Udaipur, we found that four manufacturing units of the RSGSM imported RS for manufacturing of country liquor after paying permit fee at the rate of ₹ 3.00 per BL and sold it to other parties for use for purpose other than manufacture of liquor for which permit fee was chargeable at the rate of ₹ 15.00 per BL. These units were liable to pay permit fee of ₹ 25.97 lakh, against which the Department recovered ₹ 5.66 lakh, resulting in short levy of ₹ 20.31 lakh.

The Department has not instituted mechanism to watch the end use of imported RS because of which the Department was not in a position to levy the duty at the rate of ₹ 15.00 per BL on such sales of RS by these units. These units also at their own did not deposit the same.

When we pointed out this, the Government stated (August 2011) that recovery would be made.

#### **5.5.16 Ineffective collection of fee**

As per rule 70 of the RE Rules, the applicable permit fee and vend fee was to be paid in advance in the Government accounts.

During test check of the records of DEO Jaipur (City), we noticed that the RSBCL was authorised (12.05.2006) to issue bill cum transit pass in the prescribed proforma to retailers of IMFL/Beer. The Government vide letter dated 24.04.2006, permitted the RSBCL to collect permit fee and vend fee from the retailers at

the time of issue of bill cum transit pass and to deposit the same once in a week in the Government accounts.

Audit observed that the letter was issued in contravention of provisions of rule 70 of the RE Rules. Further the RSBCL collected the permit fee and vend fee from the retailers and deposited the same in the Government account with a delay ranged between seven and 33 days.

When we pointed out this, the Government stated (August 2011) that RSBCL is a Government owned company hence interest recovery would not be justified.

We recommend that the Department should collect the excise revenue directly in Government account by separate challans during sale of liquor from the RSBCL.

### 5.5.17 Rules and policies

#### 5.5.17.1 Non-receipt of Excise Verification Certificate of liquor transported under bond

The RE Rules, 1956, the Rajasthan Breweries Rules, 1972, the Rajasthan Distillery Rules, 1977 and Conditions and Restrictions on Establishments or Licence of Bonded Warehouse notified in 1986 provide execution of a bond by the licensee in respect of liquor, Beer or RS transported under bond without pre-payment of duty. The licensee shall furnish EVC as a proof to deliver the liquor at a particular place or destination within the prescribed time limit before the bond can be discharged. If the EVC is not received within the time period mentioned in the bond or the pass, excise duty on the quantity not/short delivered at the rate when in force is recoverable.

- During test check of the records of DEOs Alwar, Jaipur (Rural) and Sikar, we found that eight manufacturing units<sup>11</sup> transported under bond 21,61,224 BL Beer and 10,39,800 LPL ENA out of the State, and 85,59,561 LPL RS/ ENA, and 1,57,85,964 LPL country liquor within the State during the period

2006-07 to 2009-10 involving excise duty(ED) of ₹ 26.02 crore in out of the

<sup>11</sup> M/s Agribiotech Industries Ltd., Carlsberg India Ltd., Dewan Modern Brewery, Globus Spirits Ltd., H.S.B. Agro Industries Ltd., Jaipur Distillery, Rochees Brewery Ltd. and United Brewery.

State and ₹ 329.69 crore within the State as detailed below:

Name of Distilleries/ Breweries	Rectified Spirit				Country Liquor		Beer	
	Within the State		Out of the State		Within the State		Out of the State	
	No. of permit	Quantity in LPL (ED in ₹)	No. of permit	Quantity in LPL (ED in ₹)	No. of permit	Quantity in LPL (ED in ₹)	No. of permit	Quantity in BL (ED in ₹)
Jaipur Distillery	113	26,16,160 (44,47,47,200)	4	1,49,400 (2,53,98,000)	389	12,60,360 (14,70,46,201)	-	-
Globus Spirits	15	5,58,049 (9,48,68,303)	-	-	2172	83,11,284 (96,96,77,504)	-	-
Agribiotech Industries	112	36,27,520 (61,66,78,400)	19	5,10,720 (8,68,22,400)	-	-	-	-
H.S.B. Agro Industries	60	17,57,832 (29,88,31,440)	12	3,79,680 (6,45,45,600)	1918	62,14,320 (72,50,24,714)	-	-
Modern Brewery	-	-	-	-	-	-	160	14,46,405 (5,41,33,828)
United Brewery	-	-	-	-	-	-	43	3,24,372 (1,45,43,044)
Carlsberg India	-	-	-	-	-	-	47	3,10,226 (1,14,64,703)
Rochees Brewery	-	-	-	-	-	-	14	80,221 (33,14,447)
<b>Total</b>	<b>300</b>	<b>85,59,561</b> <b>(1,45,51,25,343)</b>	<b>35</b>	<b>10,39,800</b> <b>(17,67,66,000)</b>	<b>4479</b>	<b>1,57,85,964</b> <b>(1,84,17,48,419)</b>	<b>264</b>	<b>21,61,224</b> <b>(8,34,56,022)</b>

Source: Information provided by the Department.

Though the licensees did not submit the EVCs even after a lapse of one to five years, the Department failed to take action under the Rules.

When we pointed out this, the Government stated (October 2011) that due to postal delay EVCs were received late. The Government further replied that the EVCs for the audit period involving excise duty of ₹ 78.62 crore have since been received and remaining EVCs would be received in due time.

We do not accept the reply as postal delay of more than one week cannot be justified. The Department was not serious about monitoring the submission of EVCs and hence the Licensees had also delayed submissions of the EVCs.

- We made effort to cross verify the receipt of liquor at destination points with dispatches made by two units<sup>12</sup> in respect of cases where EVCs were not submitted. Our cross verification revealed that one permit (2009-10) involving 33,600 LPL spirit was fictitious and against six permits (2008-09) 2,01,600 LPL spirit was not delivered at destination. Duty of ₹ 4.00 crore (2,35,200 LPL) was involved in these permits. Necessary action to recover duty of ₹ 4.00 crore with penalty should be taken under Rule 37(2) of RE Rules.

The Government stated (August 2011) that M/s Agribiotech Industries Limited and M/s H.S.B. Agro Industries Limited, Sikar exported RS/ENA during 2006-07 to 2010-11 in which 79 permits involving 19,82,400 LPL RS/ENA were fictitious and 2,35,200 LPL RS/ENA transported through seven

<sup>12</sup> M/s H.S.B. Agro Industries Limited Reengus and M/s Agribiotech Industries Limited, Ajeetgarh.

valid permits have not reached its destination. The Department had lodged FIRs in November 2010, December 2010 and January 2011 and imposed penalty of ₹ 37.70 crore against the distilleries, out of which ₹ 6.50 crore were recovered.

If we keep aside the seven permits verified by us upto 2009-10, it can be observed that duty amounting to ₹ 37.70 crore on RS/ENA was not recovered. The Department also did not indicate the recovery of excise duty in the reply.

**The Government may prescribe that the next despatch of spirit/liquor will be allowed only after receipt of the EVCs of the earlier despatch. The Government should also fix responsibility on units for collection of the EVCs on time.**

#### 5.5.17.2 Non-execution of temperance policy of liquor

As per excise policies for the years 2005-06 to 2009-10, the State Government was to implement temperance policy of liquor under which consumption of liquor was to be decreased through publishing bad effects of liquor in public.

During test check of the records of the EC office, we found that during the last five years consumption of liquor increased by 52 per cent from 1465.34 lakh BL (2005-06) to 2227.22 lakh BL (2009-10). It indicated that the temperance

policy of the liquor was not implemented effectively by the Department. The information regarding details of action taken by the Department for implementation of temperance policy of liquor, the year-wise budget provision and expenditure made there against towards temperance policy of liquor were not provided to us.

When we pointed out this, the Government stated (August 2011) that consumption of liquor increased due to increase in population and per capita income and control on illicit liquor due to effective raids. In exit conference the Government stated that besides this, provision of closure of liquor shops at 8 p.m. has been enforced, warning that liquor is injurious to health has been labeled on every bottle and the location of shops of liquor are kept quite away from educational institutes, religious places and colonies of weaker section.

We do not agree with the reply as the Government neither made budget provision nor advertised harmful effects of liquor consumption to implement temperance policy effectively.

**We recommend that Government should advertise harmful effects of liquor consumption to implement temperance policy effectively.**

## Other points of interest

### 5.5.18 Inadequacy in supply of excise locks

Under condition no. 12 and 13 of the Conditions and Restrictions on Establishment or Licence of Bonded Warehouse issued by the Government vide notification dated 22.1.1986, the charging and discharging pipe of liquor, store vats and all vessels used for the storage of liquor all main doors of such vats or vessels and the doors of spirit store and the warehouse shall be so fitted as to enable them to be closed with the Excise locks of a pattern approved by the EC. The doors of all buildings or rooms which are used for the storage of spirit shall be provided with double locks, the keys of which are not inter changeable and of which one lock shall be an excise lock in the charge of the officer-in-charge and the other of a bonded warehouse lock in the charge of proprietor.

During test check of the records of ten DEOs<sup>13</sup>, we found that the required number of excise locks were not provided by the Department during the years from 2005-06 to 2009-10 as shown below:

(In numbers)

Year	Excise locks required	Locks provided by the Department	Shortage
2005-06	258	14	244
2006-07	270	20	250
2007-08	274	13	261
2008-09	276	13	263
2009-10	268	15	253
<b>Total</b>	<b>1346</b>	<b>75</b>	<b>1271</b>

As against requirement of 1,346 locks only 75 locks (5.6 per cent) were provided. Due to non-providing of excise locks, misuse and leakage of spirit cannot be ruled out.

When we pointed out this, the Government stated (August 2011) that excise locks were provided by the headquarters as per the requirement of units. In absence of excise locks, locks of reputed companies were used and the keys remained with excise Department. Further, 25 excise locks are available in the stock which would be issued when demand would be raised by units. The Government further stated that in view of safety, new high tech system was being adopted.

We do not accept the reply as only 5.6 per cent of demand had been fulfilled by the Department during 2005-06 to 2009-10. This resulted in lack of control of Department over dispatches of liquor from warehouses and non compliance of rule 38 to 50 of the Rajasthan Distillery Rules, 1977.

<sup>13</sup> Alwar, Baran, Chittorgarh, Hanumangarh, Jaipur (Rural), Jaipur (Prosecution), Jhalawar, Sikar, Sriganganagar and Udaipur.

### 5.5.19 Non-realisation of establishment charges

Under rule 21 of the Rajasthan Distilleries Rules, 1977 the EC will appoint officers of the Excise Department to the charge of distilleries. The pay of such officers will be met by the Government provided that when the annual establishment charges exceed the sum of total of 10 *per cent* of the duty leviable on the issues made from the distillery to districts in the State, plus 60 *per cent* of the export duty levied on all exports of liquor during the year, this excess shall be realised from the distillers.

During test check of the records of three DEOs<sup>14</sup>, we noticed that in respect of officers of excise Department appointed in three distilleries<sup>15</sup>, the demand on account of excess cost of establishment charges amounting to ₹ 50.05 lakh for the years 2005-06 to 2009-10<sup>16</sup> was not raised resulting in non-realisation of excess cost of establishment

charges of ₹ 50.05 lakh. The DEO, Sikar did not provide information regarding two distilleries situated under his jurisdiction.

When we pointed out this, the Government stated (August 2011) that in case of Jaipur Distillery recovery was being made and in case of Globus Spirits, DEO, Alwar had been directed to recheck the revenue received and establishment expenses and action will be taken accordingly. The Department also stated that audit had framed objection against RSGSM Distillery, Sriganganagar which was not correct because establishment charges should be considered by taking revenue realised for whole Rajasthan.

We do not accept the reply as RSGSM sells country liquor produced in its reduction centres from its bonded warehouses established in whole Rajasthan whereas RSGSM distillery produces RS and IMFL. Establishment charges of a particular unit cannot be adjusted against the percentage duty amount on IMFL made by another unit. Thus, recovery should be made from RSGSM Distillery and Globus Spirits Distillery.

### 5.5.20 Retention of Government receipts out of account

As per Rule 5 & 7 of the General Financial and Accounts Rules (GF & AR) and Rule 9 of Rajasthan State Treasury Rules, all Government money received by or tendered to Government servants on account of revenue of the State Government shall be promptly paid in full into treasury or bank in the Consolidated Fund and/or the Public Account of the State. Further, all money transactions should be entered in the cash book as soon as they occur and get attested by the head of the office in token of checking its correctness.

During test-check of the records of DEOs Baran, Jaipur (City), Jhalawar and Nagaur for the year 2005-06 to 2009-10, we

<sup>14</sup> Alwar, Jaipur (Rural) and Sriganganagar.

<sup>15</sup> Globus Spirits Limited, Behror (Alwar), Jaipur distillery, Kotputli (Jaipur) and RSGSM Distillery, Sriganganagar.

<sup>16</sup> Figures for the year 2005-06 to 2007-08 regarding Jaipur Distillery, Kotputli were not provided to us.

found that 5,181 bank drafts of ₹ 22.89 crore were received on account of security deposits, application fee, contract money etc. These drafts were deposited in the Government account with delay ranging from two to 140 days.

When we pointed out this, the Government stated (August 2011) that staff was busy in settlement, so drafts could not be deposited in time. In future, drafts would be deposited in time.

**We recommend that the Government should make suitable system of crediting excise revenue in Government account to avoid recurrence of such cases.**

#### **5.5.21 Non-submission of cases before the court of law in time**

Section 67(2) of the RE Act envisages that registered offence cases shall be produced in court before expiry of one year. After expiry of stipulated period sanction of the Government was needed for production of cases before court.

We noticed that in DEO Jaipur (Rural) 18 cases out of 169 cases for the period 2007-08 and 2008-09 pertaining to Enforcement Excise Station, Jaipur (Rural) were not produced before the court in time. On being pointed out, the Department stated (August 2010) that proper sanction in four cases had been received and the remaining 14 cases had been referred to the Government for sanction.

We observed that due to delay in processing the cases within one year, they were required to be sent to the Government which will further delay the action to be taken in the registered offence cases. Delay in non-production of cases before the court of law in time may otherwise help the accused to escape/flee from the court proceedings and may destroy the necessary evidence required to prove his guilt.

When we pointed out this, the Government stated (August 2011) that in this case action was being taken against officers who were responsible.

**We recommend that proper monitoring system should be established to avoid such delay.**

#### **5.5.22 Internal control**

Internal controls are intended to provide reasonable assurance of proper enforcement of laws, Rules and Departmental instructions. The internal control structure helps in creation of reliable financial and management information system for prompt and efficient services and for adequate safeguards against evasion of tax and duties. Further, adequacy of components of the internal control has vital remedial role to plug the loopholes of leakage of revenue.

### 5.5.22.1 Ineffective monitoring

The State Excise Department contributes nearly 15 per cent to total tax revenue of the State. To keep supervision and exercise control over the sub-ordinate offices, wide range of inspections from the level of the Additional Excise Commissioner to the level of Petroling Officer had been prescribed in the Rajasthan State Excise Manual, 1988. The norms for inspection such as monthly, quarterly, yearly etc. have also been fixed. A register of inspection was required to be maintained in the EC's office showing details of inspections conducted by each officer. A separate file was also required to open for each inspection conducted for watching compliance of the points raised in the inspection reports.

During test check of the records in the office of EC and five out of 16 DEOs, we noticed that neither the register of inspection was maintained in the EC's office nor records of inspections was maintained by the respective officers. Therefore, efficacy of the monitoring of inspection at EC level could not be ascertained by us.

### 5.5.22.2 Working of internal audit

The Department has an internal audit (IA) wing headed by a Financial Advisor with the three internal audit parties, each comprising of one or two Assistant Accounts Officer and one Junior Accountant. Every item of income and expenditure of the Department is a subject of audit. The internal audit parties submit inspection reports to the EC.

The position of internal audit reports (IAR) and paragraphs issued and disposed off during the years 2005-06 to 2009-10 were as follows:

(₹ in lakh)

Year	Opening balance IAR (paras) amount	Addition IAR (paras) amount	Total IAR (paras) amount	Clearance IAR (paras) amount	Closing balance IAR (paras) amount	Percentage of clearance	
						IAR	Paras
2005-06	194 (1094) 306.52	17 (198) 87.44	211 (1292) 393.96	6 (300) 16.71	205 (992) 391.62	2.84	23.22
2006-07	205 (992) 391.62	3 (29) 187.25	208 (1021) 578.87	11 (180) 48.71	197 (841) 530.16	5.29	1.76
2007-08	197 (841) 530.16	7 (144) 0.89	204 (985) 531.09	10 (82) 4.67	194 (903) 526.38	4.90	8.25
2008-09	194 (903) 526.38	8 (160) 8.80	202 (1063) 535.18	38 (397) 0.38	166 (666) 534.80	18.81	37.35
2009-10	166 (666) 534.80	20 (322) 16.01	186 (988) 550.81	43 (238) 7.51	143 (750) 543.30	23.12	24.09

The above table reveals that the number of audit conducted during 2005-06 to 2009-10 ranged between 3 and 20, as against 40 units required to be conducted annually while clearance of the IAR ranged between 2.84 (2005-06) and 23.12 (2009-10) *per cent* and clearance of paras between 1.76 (2006-07) and 37.35 (2008-09) *per cent*.

On being pointed out, the Government stated (August 2011) that due to shortage of man power, audit of all units could not be conducted and after filling up the vacancies in 2010-11 only 39 units were pending for audit as on 31 August 2011. We suggest that the experienced knowledgeable staff should be posted to improve the outcome of internal audit so that it may be conducted effectively.

**We recommend that internal control mechanism may be strengthened to ensure better financial management.**

### **5.5.23 Conclusion**

We noticed that the Department had heavy pendency of arrears of revenue pending for more than ten years. Though it was repeatedly pointed out in various Audit Reports, the Department did not fix norms for minimum yield of spirit from grain. We also noticed many cases of non/short levy of licence fee, brand fee, excise duty and brand label fee in contravention of Rules. Further, the Department had granted undue benefit by allowing bar licenses to Hotels under heritage category and unallowable wastage in production of heritage liquor to a distillery. The Department had not monitored timely submission of Excise Verification Certificates. There was improvement in internal audits carried out by the internal audit wing.

### **5.5.24 Summary of recommendations**

**The Government may consider the recommendations noted under the respective paragraph with the special attention on the following for effective levy and collection of State Excise.**

**The Government may consider:**

- **fixing norms for minimum yield of spirit from grain;**
- **correlating allowable wastage with distance;**
- **charging fee on transfer of power of attorney to another person by the licensee;**
- **issuing guidelines regarding time limit for submission of Excise Verification Certificates and rate of penalty to be levied. Further next despatch of spirit/ liquor may be allowed only after receipt of earlier despatch;**
- **advertising harmful effects of liquor/ LPH/ Bhang to the public at large to implement temperance policy effectively; and**
- **strengthening internal control mechanism for better financial management.**

***CHAPTER-VI***  
***NON-TAX RECEIPTS***

### Executive Summary: Chapter - VI

<p>Marginal increase in non-tax collection</p>	<p>Non-tax Revenue of Govt. of Rajasthan increased to ₹ 6294.12 crore in the year 2010-11 as compared to ₹ 4558.22 crore, during the previous year. Increase in non-tax revenue in the year 2010-11 over the previous year was 38 <i>per cent</i>.</p>
<p>Low recovery by the Department of observations pointed out by us in earlier years</p>	<p>During the period 2005-06 to 2009-10, we had pointed out observations with revenue implication of ₹ 1135.19 crore in 109 paragraphs. Of these, the Department/Government accepted audit observations in 73 paragraphs involving ₹ 366.29 crore and had since recovered ₹ 24.52 crore in 27 paragraphs. Recovery was only seven <i>per cent</i> even in accepted cases.</p>
<p>Internal audit not conducted.</p>	<p>Records of DMG, Udaipur revealed that internal audit of almost all the mining units were pending since 2004-05. This resultantly had its impact in terms of weak internal controls in the Department leading to substantial leakage of revenue. In the absence of internal audit, the Departmental authorities remained unaware of the areas of malfunctioning of the systems, and were, therefore, unable to take timely remedial action.</p>
<p>Results of Audit conducted by us in 2010-11</p>	<p>In 2010-11 we test checked the records of the Mines, Geology and Petroleum, Colonisation, General Administration, and Public Works Department and found non/short recovery of revenue amounting to ₹ 1,150.61 crore in 3,842 cases.</p> <p>The Mines, Geology and Petroleum Department accepted short realisation and other deficiencies of ₹ 29.48 crore in 2,242 cases, of which 1,738 cases involving ₹ 23.70 crore were pointed out by us in audit during the year 2010-11 and rest in earlier years.</p> <p>The Department recovered ₹ 5.77 crore in 704 cases, which were pointed out in earlier years and no recovery was made in the accepted cases for the year 2010-11.</p>

<p>What we have highlighted in this Chapter</p>	<p>In this Chapter we present illustrative cases involving ₹ 158.00 crore selected from observations noticed during our test check of the records relating to assessment and collection of Mines, Geology and Petroleum, Colonisation, General Administration, and Public Works Department, where we found that the provisions of the Acts/Rules were not observed.</p> <p>This has resulted in irregular sanction of lime stone lease as, minor mineral, Undue benefit to lessees by granting the lease to those lease holders who were already possessing two leases. Further, there was no control on the quantity of minerals to be excavated, eight mining lease holders excavated minerals in excess of the quantity authorised by RSPCB, even though unauthorised excavation causes serious threats to environment and ecological balance. There was no coordination among Revenue Department, Forest Department, Police and Mines Department; due to which illegally excavated minerals (stone) were dispatched to Haryana and Uttar Pradesh States.</p>
<p>Our conclusion</p>	<p>The Department should take remedial steps to stop illegal mining. It should be ensured that the lessee took measures for the protection of environment and such other measures like air pollution during prospecting mining, beneficiation or metallurgical operations and related activities be controlled and kept within permissible limits. There should be a control mechanism to keep a watch on the minerals excavated by the lessees. To minimize illegal mining there should be coordination among the different Departments of the State such as Revenue, Police, forest and Mining Department. The lessees should be allowed in accordance with the provisions of the Act/Rules.</p> <p>The Department needs to improve the internal control system including strengthening of internal audits so that weakness in the system are addressed and omissions of the nature detected by us are avoided in future.</p>

## CHAPTER-VI: NON-TAX RECEIPTS

### 6.1 Introduction

Non-tax revenue of the State Government mainly comprises receipts from interest, mines and minerals, miscellaneous general services, water resources, public works, police, medical and health, forestry and wild life *etc.* The total revenue and non-tax revenue raised by the State Government during the years 2006-07 to 2010-11 was as under:

(₹ in crore)

Year	Total revenue raised by the State	Total non-tax revenue of the State	Percentage of non-tax revenue to total revenue
2006-07	15,038.85	3,430.61	22.8
2007-08	17,328.66	4,053.93	23.4
2008-09	18,832.21	3,888.46	20.6
2009-10	20,972.49	4,558.22	21.7
2010-11	27,053.20	6,294.12	23.3

During the last five years, the contribution of non-tax revenue to total revenue of the State ranged between 20.6 *per cent* (2008-09) to 23.4 *per cent* (2007-08).

### 6.2 Analysis of arrears of revenue

The arrears of revenue of mining receipts (excluding arrears of illegal excavation/despatch of minerals) as on 31 March 2011 amounted to ₹ 64.11 crore, of which ₹ 21.42 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue as on 31 March 2011.

(₹ in crore)

Year of arrear	Opening balance of arrears as on 1.4.2010	Amount collected during the year 2010-11	Closing balance of arrears as on 31.3.2011
Up to 2005-06	82.17	60.75	21.42
2006-07	90.62	80.76	9.86
2007-08	101.42	91.49	9.93
2008-09	103.17	97.53	5.64
2009-10	119.22	101.96	17.26
<b>Total</b>	<b>496.60</b>	<b>432.49</b>	<b>64.11</b>

The chances of recovery of arrears of ₹ 21.42 crore, outstanding for more than five years, are bleak.

**We recommend that the Government should take appropriate action to recover the arrears.**

### 6.3 Impact of Audit Reports

During last five years, we, through our audit reports, had pointed out cases of non/short levy, non/short realisation, underassessment/loss of revenue, application of incorrect rate of tax, incorrect computation of tax *etc.* with revenue implication of ₹ 1135.19 crore in 109 paragraphs. Of these, the Department/Government had accepted audit observations in 73 paragraphs involving ₹ 366.29 crore and had since recovered ₹ 24.52 crore in 27 paragraphs (December 2011) as shown in the following table:

(₹ in crore)

Year of Audit	Paragraphs included		Paragraphs accepted		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	12	155.77	6	40.51	4	2.09
2006-07	15	34.29	8	3.24	6	1.02
2007-08	13	275.30	10	23.86	5	4.31
2008-09	27	259.67	17	22.01	11	17.04
2009-10						
Revenue Receipts	5	7.31	4	2.39	1	0.06
Mining Receipts	37	402.85	28	274.28	-	-
<b>Total</b>	<b>109</b>	<b>1135.19</b>	<b>73</b>	<b>366.29</b>	<b>27</b>	<b>24.52</b>

Amount of recovery is less than the accepted amount because in some cases recovery had been stayed by the judicial authorities, while in other cases demands were pending at various stages of recovery.

### 6.4 Working of Internal Audit Wing

Internal audit is an important mechanism to ensure that the Departmental operations are carried out in accordance with the applicable laws, regulations and approved procedures in an economical, efficient and effective manner, subordinate offices are maintaining various records, registers/account books properly and accurately, and adequate safeguards are being taken against non/short collection or evasion of revenue.

Records of DMG, Udaipur revealed that audit of almost all the mining units were pending since 2004-05. Thus, in absence of internal audit, the internal control mechanism of the Department is not strong.

**In the absence of internal audit, the Departmental authorities remained unaware of the areas of malfunctioning of the systems, evasion/leakage of revenue and did not, therefore, have any opportunity of taking remedial action.**

## 6.5 Results of Audit

During test-check of the records of the Mines, Geology and Petroleum, Colonisation, General Administration, and Public Works Department conducted during the year 2010-11 revealed non/short recovery of revenue amounting to ₹ 1,150.61 crore in 3,842 cases, which broadly fall under the following categories:

(₹ in crore)			
Sl. no.	Category	Number of cases	Amount
<b>A</b>	<b>Mines, Geology and Petroleum Department</b>		
1.	Unauthorised excavation	563	437.38
2.	Non/short recovery of dead rent and royalty	174	10.53
3.	Non-levy of penalty/interest	847	3.55
4.	Non-forfeiture of security	79	0.17
5.	Other irregularities	2,151	697.63
<b>B</b>	<b>Colonisation Department</b>		
1.	Irregular calculation of cost of land	21	0.13
<b>C</b>	<b>General Administration Department</b>		
1.	Non-recovery of rent and interest	6	0.49
<b>D</b>	<b>Public Works Department</b>		
1.	Failure of Department in revising the bid price resulted in loss of revenue	1	0.73
	<b>Total</b>	<b>3,842</b>	<b>1,150.61</b>

During the year 2010-11, the Mines, Geology and Petroleum Department accepted short realisation and other deficiencies of ₹ 29.48 crore in 2,242 cases, of which 1,738 cases involving ₹ 23.70 crore were pointed out in audit during the year 2010-11 and rest in earlier years. The Department recovered ₹ 5.77 crore in 704 cases, which were pointed out in earlier years.

A few illustrative audit observations involving ₹ 158.00 crore are mentioned in the succeeding paragraphs 6.7 to 6.10.

## **A. Mines, Geology and Petroleum Department**

### **6.6 Audit observations**

*During test-check of the records of Mines, Geology and Petroleum Department revealed several cases of non-observance of the provisions of Act/Rules, non-adherence to the Government orders/procedure and other irregularities in the cases as mentioned in the succeeding paragraphs of this chapter. These cases are illustrative and are based on a test-check carried out in audit. Such omissions on the part of Mining Engineers/Assistant Mining Engineers were pointed out in audit each year, however not only the irregularities persisting, these remain undetected till an audit is conducted. There is need for the Government to improve their internal control system.*

### **6.7 Non-observance of the provisions of Acts/Rules**

*The Mines and Minerals (Development and Regulation) Act, 1957 (MMDR Act). Mineral Concession (MC) Rules, 1960. Mineral Conservation and Development (MCD) Rules, 1988 and Rajasthan Minor Minerals Concession (RMMC) Rules, 1986 provide for:*

- (i) levy of royalty at prescribed rates;*
- (ii) levy of cost of minerals illegally excavated/despached;*
- (iii) levy of interest on delayed payments;*
- (iv) grant of leases; and*
- (v) conservation of minerals.*

*The Mining Engineers/Assistant Mining Engineers and Departmental authorities did not observe the provisions of the Act/Rules in the cases mentioned in paragraphs 6.7.1 to 6.7.16. This resulted in non/short realisation of royalty, non/short realisation of cost of mineral and non-levy of interest of ₹156.65 crore.*

### 6.7.1 Irregular sanction of lime stone leases as minor mineral

Under section 13 of the MMDR Act, the Central Government has powers to make rules for regulating the grant of prospecting licenses and mining leases in respect of minerals and for the purposes connected therewith. Under section 15 of the *ibid* Act, the Central Government has delegated power to the State Governments to make rules in respect of concessions of minor minerals.

The Government of India declared (6 March 1965) limestone as minor mineral when used in kilns for manufacture of lime as building material, and authorised (14 September 1989) the State Governments to grant mining leases for lime stone as a minor mineral only, after satisfying that the lime stone is fit to be used only for manufacture of lime as building material on the basis of chemical analysis reports. Limestone assaying less than 40 *per cent* CaO or more than 16 *per cent* SiO<sub>2</sub> and 5 *per cent* or more of MgO only may be considered as a minor mineral. For this the Department should obtain a chemical analysis report of a reputed analyst.

As per rule 48 (5) of the RMMC Rules, cost of mineral, ten times of the royalty, is recoverable, when mineral excavated and dispatched unlawfully.

During test check of the records of five AME/MEs<sup>1</sup>, we found (November 2010 to January 2011) from royalty assessments that 35 leases of limestone to be used in kilns were sanctioned for making lime as building material. However, the lessees had despatched the limestone to various cement factories and steel plants for production of cement and iron which was contrary to the end use condition and violation of the conditions of mining leases. The chemical analysis report was not made available to audit.

We noticed that these facts were in the notice of the Department but no action was taken against the defaulter lessees. In one case, the AME Gotan had served notice (26.9.97) to lessee for despatching limestone to cement factories violating terms and conditions of the lease but no action was taken. Further in AME Gotan itself, one mining lease number 75/90 was sanctioned(16.2.91) in favour of M/s J.K.Synthetic Ltd. for Lime stone, to be used in cement plant, as minor mineral.

The action of the lessees to deviate the end use of mineral, in supplying to cement factories and steel plants, in contravention of conditions of the leases, was illegal. The Department was also responsible for the irregularity. Hence, as per rule 48(5) of the RMMC Rules, the cost of such illegally excavated and despatched mineral ₹ 398.47 crore was recoverable, which was not recovered.

When we pointed out, (November 2010 to January 2011) AME, Gotan and ME, Bhilwara stated that royalty of major mineral lime stone (cement grade) excavated from minor leases was recovered. However, instruction had been

<sup>1</sup> Bhilwara, Bundi II, Chittorgarh, Gotton and Nimbahera.

sought from DMG in this regard. ME, Bundi-II stated that limestone excavated from the leases sanctioned for minor mineral limestone (burning) was being sent to cement factory as the lime stone *bhattas* had been closed. ME, Chittorgarh and AME, Nimbahera stated that the action would be taken after obtaining directions from the higher authorities.

We do not accept replies because supply of lime stone to cement factories and steel plants which are covered under major mineral was irregular and violated the conditions of the leases regarding end use of the mineral.

The matter was pointed out to the Department and reported to the Government (December 2010 and March 2011). We are awaiting their replies (December 2011).

### 6.7.2 Undue benefit to lessees

Rule 11(2) of the RMMC Rules provides that the maximum number of mining leases granted for mineral to a person within direct jurisdiction of any ME/AME shall be restricted to two. Further, as per rule 72 of the *ibid* Rules, no mining lease, quarry licence, short term permit or any other permit shall be granted otherwise in accordance with the provisions of these rules, and if granted, shall be deemed to be null and void.

During test-check of the records of eight ME/AME offices<sup>2</sup>, we noticed (August 2010 and February 2011) that in 17 cases, leases were granted/transferred to those lease holders who were already possessing two leases in the direct jurisdiction of the ME/AME concerned. In these cases Department had extended undue benefit to the lessees by granting additional leases. The

DMG had also inquired (25 June 2009) about sanction of more than two lease areas in violation of Rule 11(2) of the RMMC Rules by ME, Rajsamand-II. However, no directions were issued by the Department to ME/AME to restrict the number of sanctioned leases to two within their direct jurisdiction. Sanctioning of more than two leases was violation of rules and as per rule 72 of the *ibid* Rules such leases were null and void. Therefore, the 7,37,676 MT minerals excavated and despatched was unlawful. The cost of unlawfully excavated and despatched minerals worked out to ₹ 104.88 crore.

When we pointed out, MEs, Udaipur, Rajsamand-I, Amet, Banswara and AME Nimbahera stated (August 2010 to January 2011) that leases were allotted and transferred as per RMMC Rules and Marble Policy 2002. We do not accept replies as there is no such provision in the Marble Policy regarding sanction of more than two leases. Moreover, the policy itself is made under the RMMC Rules.

ME, Rajsamand-II and AME, Rishabhdev stated (August 2010 and February 2011) that audit would be intimated after examining the matter and AME, Jalore, stated (September 2010) that matter was being referred to the Director/Government for their comments.

---

<sup>2</sup> Amet, Banswara, Jalore, Nimbahera Rajsamand I, Rajsamand II, Rishabhdev and Udaipur.

The matter was pointed out to Department and reported to Government (September 2010 and March 2011). We are awaiting their replies (December 2011).

### 6.7.3 Loss of royalty

#### 6.7.3.1 Loss of revenue due to irregular revoking of royalty collection contract

Condition No. 2(9) of the agreement of excess royalty collection contract(ERCC)/royalty collection contract (RCC) executed under rule 37(2) of the RMMC Rules, stipulates that in case of default in due observance of terms and conditions of the contract, the contract may be terminated by issuing a 15 days notice with forfeiture of security deposit. Rule 71(1) of the *ibid* rules, further stipulates that every notice under these rules shall be given in writing in person or by registered post.

During test check of the records of the ME, Bijoliya, we observed (January 2011) that a contract for collection of royalty and weighing charges on mineral sand stone (*Patti, Furshee, Cobbles and Blocks*) in Tehsils Bijoliya and Mandalgarh of District Bhilwara and Tehsil Begu of District Chittorgarh was sanctioned (28.03.2008) in

favour of M/s Mateshwari Indrani Contractors Private Limited for the period from 12 April 2008 to 31 March 2010 at an annual contract amount of ₹ 9.27 crore. The contract amount was to be deposited in advance in twelve equal instalments. The contractor failed to deposit instalments for the period 12 June 2009 to 11 July 2009 of the contract. Hence, ME issued (22 June 2009) a notice under postal certificate to contractor, for depositing the due amount of ₹ 79.06 lakh for the period 12 June 2009 to 11 July 2009. Due to non-compliance of the notice, the contract was terminated on 21 July 2009 forfeiting security deposit ₹ 115.88 lakh. A new royalty collection contract was awarded (9 December 2009) in favour of M/s Parth Network Private Limited, at ₹ 8.50 crore per annum for the period 12 December 2009 to 31 March 2011. During the intermittent period from 22 July 2009 to 11 December 2009 ₹ 2.18 crore were collected departmentally as royalty and weighing charges.

Against the ME's order of termination of royalty collection contract and forfeiture of security deposit, M/s Mateshwari Indrani Contractors Private Limited submitted (23.7.2009) appeal with the Additional Director, Mines (ADM), Udaipur stating that neither notice of dues was served upon them nor any opportunity of hearing was given. It was also mentioned that dues amount had been deposited on 16.7.2009 and 22.7.2009, therefore, requested to revive the contract restoring security deposit. The ADM in his decision (10 December 2009) observed that termination of the contract was not proper as the contractor had already deposited ₹ 60 lakh on 16 July 2009, ₹ 17.25 lakh on 22 July 2009 and balance ₹ 1.81 lakh on 24 July 2009, and the notice of dues was also not served to him. Moreover, the contract had been awarded to other party, its revival is not possible, hence security deposit of ₹ 1.16 crore may be refunded.

Thus, non-observing the prescribed procedure by the ME for issue of notice for termination of the contract caused the State Government a loss of ₹ 2.85 crore<sup>3</sup>.

When we pointed out, the ME stated (January 2011) that due to lapse of grace period and not accepting registered AD by the Post-office, the notice was sent by UPC. We do not accept reply because registered notice are to be sent on next day or handed over personally as envisaged in the rules. We are also of the opinion that the decision of the ADM to order refund of the security deposit of ₹ 1.16 crore was not correct since the contractor knew the due dates for deposit of instalment whether demanded or not by the ME.

The matter was pointed out to the Department and reported to the Government in February 2011. We are awaiting their replies (December 2011).

### 6.7.3.2 Loss of revenue due to despatch of mineral without *rawannas*

During test check of the records of ME, Karauli and AME, Tonk we noticed (June-November 2010) that two ERC Contractors violated the conditions of agreements, and collected excess royalty from the vehicle holders carrying mineral without *rawannas* instead of handing over the vehicles to the Mining Department for recovering cost of mineral. This caused loss of revenue ₹ 79.31 lakh to the State Government as below:

(₹ in lakh)

Name of office	Name of the ERC Contractor	Period of contract	Minerals and quantity (MT)	Period of illegal collection of royalty	Royalty amount illegally collected by the contractor	Cost of mineral	Total loss of revenue
ME, Karauli	M/s Shiva Corporation India Ltd. Jaipur	23.5.2009 to 31.03.2011	Sand stone <i>Khandas</i> 60385	5/2009 to 3/2010	6.04	60.39	66.42
AME, Tonk	M/s Shambhu Dayal Sharma	01.4.2008 to 31.3.2009	Masonry stone 11713	4/2008 to 7/2008	1.17	11.71	12.89
<b>Total</b>					<b>7.21</b>	<b>72.10</b>	<b>79.31</b>

No action was taken by the Department against defaulter ERC contractors in due observance of terms and conditions of the contract.

When we pointed out it (June and November 2010), the ME, Karauli stated (November 2010) No action was taken by the Department against defaulter ERC contractors in that contractor had collected excess royalty on mineral sand stone *khanda* despatched without *rawannas* from sanctioned leases, as no *rawannas* for *khandas* were issued to lessees by the Mining Department. Hence, the contractor and lessees were not defaulters. We do not accept reply because the despatch of mineral without *rawanna* falls in purview of unauthorised mineral as envisaged in terms and condition of the ERCC

<sup>3</sup> (₹ 1.16 crore of security deposit + ₹ 1.69 crore of less royalty received in Departmental collection).

agreement as well as under rule 48(5) of the RMMC Rules. In this case, the ME, Karauli is also responsible for the irregularity as the matter was in his notice. While, the AME, Tonk stated (June 2010), that after scrutiny of records action would be taken.

These matters were pointed out to the Department and reported to the Government (July and December 2010). We are awaiting their replies (December 2011).

#### 6.7.4 Non/short raising demand of cost of brick earth

As per brick earth concession rules, the kiln owner shall obtain permission for the brick earth to be used in making bricks. The permission shall be at least for one year and maximum for five years. The royalty on brick earth shall be recovered on the basis of annual metric ton quantity of earth used work out as per formula 150 days x 3.5 MT x Number of *ghories*. Rule 48 of the RMMC Rules provides that whenever any person raises, without lawful authority, any mineral, he shall be liable to pay cost of the mineral along with royalty so excavated.

During test check of the records of ME, Alwar and Dholpur, we noticed (August and September 2010) that seven kiln owners used brick earth illegally without obtaining requisite permit and paying royalty. The Department however raised demand on the basis of actual quantity of bricks found on the spot at the time of inspection whereas, the recoverable

cost along with royalty worked out to ₹ 186.77 lakh as detailed below:

(₹ in lakh)

Sl. No.	Name of office	Name of kiln owner	Period/date of unauthorised excavation / use of mineral	Demand raised by Department.	Recoverable amount
1.	ME, Alwar	M/s Govindam Bricks Co.	21.2.2005 to 17.3.2010 (Nine inspections)	33.47	60.29
		Shri Mukesh Chand Jain	10.5.2006 to 31.3.2010 (Six inspections)	30.51	56.61
2.	ME, Dholpur	M/s RM Bricks	15.1.2009	2.52	13.86
		M/s JS Bricks	12.2.2009	2.31	12.71
		M/s Shree Bricks	15.1.2009	2.73	15.01
		M/s Sona Bricks	9.3.2010	2.42	13.28
		M/s Kaila Bricks	9.3.2010	2.73	15.01
<b>Total</b>				<b>76.69</b>	<b>186.77</b>

When we pointed out (August and September 2010), the ME, Alwar and Dholpur stated (September 2010) that action for recovery of ₹ 63.98 lakh and ₹ 12.71 lakh respectively from the concerned kiln owners, calculated on the basis of actual number of bricks physically found filled in the kilns at the time of inspection, was being taken.

We do not accept replies because as per brick earth concession rules, minimum period of licence for recovering royalty and running brick kiln is one year, and the running of kilns were to be treated as continuous since during every inspection these kilns were found running. Thus, ₹ 186.77 lakh being recoverable amount for unauthorised use of brick earth, which include ₹ 69.87 lakh being demand worked out short due to incorrect calculation of demand in contravention of provisions of brick earth concession rules. Further the Department by not recovering difference amount of cost is encouraging illegal use of brick earth.

The matters were pointed out to the Department and reported to the Government (October 2010). We are awaiting their replies (December 2011).

### **6.7.5 Illegal production of minerals**

As per rule 18(10) of the RMMCR, the lessee shall abide by all existing Acts and rules framed by the Government of India or the State Government and all such other Acts or rules as may be enforced from time to time in respect of working of mines and other matters affecting safety, health and convenience of the lessee's employees or of the public. Rule 16 and 17 of the Marble Development and Conservation Rules, 2002 envisage that no person shall commence mining except in accordance with an approved mining plan.

Under section 21 (4) of the Air (Prevention and Control of Pollution) Act, 1981 and section 25 and 26 of the Water (Prevention and Control of Pollution) Act, 1974, a lessee is required to obtain a consent to operate from the Rajasthan State Pollution Control Board (RSPCB) determining quantity of minerals that can be excavated during the prescribed period. Further, rule 48(5) of the RMMC Rules provides that whenever any person, without a lawful authority, raises and despatches any mineral, the AME/ME concerned may recover cost of such mineral computed as ten times the royalty payable at prevalent rates, along with the royalty on the mineral.

#### **6.7.5.1 Illegal production of minor minerals**

During test check of the records of four ME offices, we found (December 2010 to March 2011) that eight mining lease holders excavated minerals in

excess of the quantity authorised by the RSPCB as detailed below:

(₹ in lakh)

Sl. No.	Name of the ME office	Period	ML No. and mineral	Excavated/ despatched quantity (MT)	Quantity permitted by RSPCB (MT)	Excess quantity excavated (MT)	Recoverable amount of unauthorised quantity
1.	Sirohi	2008-10	226/89 Marble block	5,734	3,650	2,084	40.11
			Marble khanda	7,618	-	7,618	50.28
2.	-do-	2009-10	197/89 Marble block	8,686	5,475	3,211	61.81
3.	-do-	2008-09	120/91 Granite block	1,155	200	955	15.76
			Granite khanda	147	-	147	0.97
4.	-do-	2008-09	483/90 Granite block	4,287	3,650	637	10.51
			Granite khanda	755	-	755	4.98
5.	-do-	2008-09	252/89 Granite block	4,227	3,650	577	9.53
			Granite Khanda	719	-	719	4.74
6.	Ramganj mandi	2009-10	136/92 Masonry Stone	11,555	5,475	6,080	6.69
7.	Amet	2009-10	1198/91 Marble block luffers	2,962	840	2,122	40.85
8.	Jodhpur	1.07.2008 to 2.9.2008	347/05 Lime stone	320	-	320	1.94
			Lime stone	5,460	1,167	4,293	25.97
<b>Total</b>						<b>29,518</b>	<b>274.14</b>

Even though unauthorised excavation causes serious threats to environment and ecological balance, the concerned MEs issued *rawannas* for minerals for the quantity more than authorised by RSPCB. The Department had also not restricted issue of *rawanna* upto the quantity of mineral authorised by the RSPCB. Thus, ₹ 2.74 crore, being the cost and royalty of 29,518 MT of minerals excavated illegally by the lessees, were recoverable.

When we pointed out, ME, Sirohi and ME, Jodhpur stated (February-March 2011) that revenue loss had not occurred as the lessees despatched the minerals by valid *rawannas*. Whereas, the ME, Ramganjmandi and ME, Amet stated (December 2010 and January 2011) that position would be intimated to audit after examining the cases.

We do not accept replies as the excavation and despatch of minerals in excess of authorised quantity by RSPCB was contrary to provisions of the pollution and environment rules.

### 6.7.5.2 Mineral excavation without approval of mining plan

During test check of the records of three AME/ ME offices, we found (August-December 2010) from concession files and mining plans of the leases that holders of nine mining leases excavated and despatched 1065 MT mineral marble during the years 2007-08 to 2009-10 without any approved mining plan as envisaged in rule 16 and 17 of the Marble Development and Conservation Rules, 2002 which was violation of extent provisions. The lessees were furnishing monthly returns of production despite that the Department issued *rawannas* for mineral production and despatch without ensuring the approval of mining plan. The production of mineral marble without approved mining plan was illegal and attracted recoverable cost of mineral ₹ 170.05 lakh.

In response, the ME, Rajsamand-II stated (August 2010) that reasons of lapses would be investigated. While the ME, Udaipur stated (November 2010) that action would be taken by issuing notices under the provisions. AME, Banswara replied (December 2010) that mineral was despatched on *rawannas*. We do not accept reply as issue of *rawannas* for despatch of marble excavated from the area without approved mining plan was irregular.

These matters were pointed out to the Department and reported to the Government in September 2010 to January 2011. We are awaiting their replies (December 2011).

### 6.7.5.3 Illegal production of major minerals

As per condition 11 C of part VII of lease agreement executed under rule 31 of the MC Rules, the lessee shall take measures for the protection of environment and such other measures as may be prescribed by the Central or State Government. Rule 37 of the MCD Rules provides that air pollution during prospecting, mining, beneficiation or metallurgical operations and related activities shall be controlled and kept within 'permissible limits' specified under the Air (Prevention and Control of Pollution) Act, 1981 and Environment (Protection) Act, 1986 by the holder of prospecting licence or a mining lease. Further, as per section 21(5) of the MMDR Act, the price, along with royalty, of the mineral, illegally excavated and disposed of, shall be recovered from the defaulter.

produced 19,382 MT mineral during the period 01.01.2009 to 30.09.2009 (273 days) against the permitted quantity of 5,460 MT (273x20) violating the orders of the RSPCB. Thus, the excess production of 13,922 MT mineral over and above the allowed quantity was illegal, which attracted recovery of cost of mineral ₹ 25.06 lakh (13,922x180). The Department also did not keep in view the quantity authorised by RSPCB while issuing *rawannas*.

During test check of the records of the AME, Nimbahera, we observed (November 2010) from concession and royalty assessment files that lease holder of mining lease no. 9/2000 of mineral red ochre and china clay near village Hatipur was allowed (21 February 2007) production of 20 MT minerals red ochre/china clay per day by the RSPCB. However, the lessee

When we pointed out (November 2010), the AME, Nimbahera stated (November 2011) that action would be taken.

The matters were reported to the Department and Government (December 2010 and March 2011). We are awaiting their replies (December 2011).

### 6.7.6 Unauthorised excavation and despatch of mineral from forest

Apex Court issued (8 April 2005) directions for protection of the wild life and environment, restraining any kind of mining activity in forest of the Arawali Hills falling in the State. Rule 48 of the RMMC Rules stipulates that in case of illegal mining, cost of the mineral so excavated and despatched be recovered at ten times of prevailing royalty rates along with recovery of royalty. Further, the State Government issued (19.6.2000) instructions that the Mines Department will brought into notice of the Forest Department any illegal mining activity carried out in the forest areas.

**6.7.6.1** During test check of the records of the ME, Alwar, we noticed (August 2010) that contrary to the directions of the Apex Court and provision of the RMMC Rules 1986, illegal mining was being carried out at large scale in the forest area. The Senior Deputy Manager, RICCO, Bhiwadi, intimated (03 September 2009) to ME, Alwar that large quantity of mineral excavated from the forest area was being despatched to Haryana and Uttar Pradesh loaded in nearly

800 to 1,000 dumpers per day through industrial area, Bhiwadi. Each dumper carried mineral masonry stone nearly 50 to 60 MT. The facts were verified (03.11.2009) by Sub-Divisional Officer, Tijara (Alwar) and ME, Alwar. The ME, Alwar asked (30.12.09) Forest Conservator, Social Forestry, Alwar to check such illegal mining activities carried out in the forest areas. The ME, Alwar had also conducted 25 inspections during 5 June 2008 to 1 May 2010 and found evidence that illegal mining was taking place in the forest areas. The ME in his inspection note mentioned that pits existed in the forest areas and working of labourers and machinery deployed there. However, the ME did not mention any pit measurements for arriving at illegal excavated quantity of mineral. As per data available in ME, Alwar, at least 1.46 crore MT (800 dumpers x 50MT x 365 days) masonry stone had been illegally excavated and despatched, in absence of coordination among Revenue Transport, Forest, Police and Mines Departments, the cost along with royalty of such illegally excavated and despatched mineral during the year worked out to ₹ 208.78 crore (1,46,00,000x13x11). This caused loss of ₹ 208.78 crore to State Government as well as huge loss to wild life and serious threat to ecological balance in the forest area and nearby populace.

When we pointed out it, the ME accepted (September 2010) the facts and showed incapability to check such unauthorised excavation and despatch of minerals from the forest areas due to non-cooperation of the Forest Department, Transport Department and Police administration.

**6.7.6.2** During test check of the records of the ME, Karauli, we noticed (November 2010) that as per joint inspection (7.8.09) of officials of Forest Department and Mining Department, mineral sand stone slabs 1,09,455 MT had been excavated and despatched unauthorisedly from the forest area

resulting in loss of ₹ 6.02 crore (1,09,455 x 50 x 11) being cost and royalty of the mineral excavated and despatched unauthorisedly.

When we pointed out it (November 2010), the ME stated that after scrutiny, position would be intimated to audit. The reply furnished by the ME is not satisfactory as Mining Department and Forest Department had not taken timely action for prohibition of illegal mining.

In above cases, the State Government was deprived of the cost of mineral along with royalty ₹ 214.80 crore (₹ 208.78 crore + ₹ 6.02 crore) and serious threat was caused to wild life and environment.

The matters were reported to the Department and Government (October 2010 and December 2010). We are awaiting their replies (December 2011).

### **6.7.7 Non-raising demand of royalty and cost of mineral excavated and despatched unauthorisedly**

As per rule 18(9) (c) and 18(10) of the RMMC Rules, the lessee or any other person shall not remove or despatch or utilise the mineral from the mines and quarry without *rawannas*. The lessee shall abide by all existing Acts and Rules enforced by Government of India or the State Government and all such other Acts and Rules enforced from time to time in respect of working of mines and other matters affecting safety, health and convenience of the lessee's employees or of the public. Rule 48(5) of *ibid* rules provides that whenever any person, without a lawful authority raises mineral, the cost of mineral along with royalty shall be recovered. The cost of mineral will be computed as ten times of the royalty payable at the prevalent rates. Rule 66 of *ibid* rules further provides that any amount due to Government may be recovered as an arrear of land revenue.

During test check of the records of the ME, Ramganjmandi, we noticed (December 2010) that a mining lease no.20/93 for mineral lime stone (building stone) was effective in favour of M/s Milan Stone Company, Zulmi. As per inspection report (April and July 2009) of Senior Mines Foreman, a quantity of 8,82,942 ton mineral was found produced from the lease area. Whereas, the lessee had shown production of

5,53,199 ton only in the returns submitted to Department. The difference of 3,29,743 ton (8,82,942-5,53,199) in the quantity of building lime stone as per the inspection report and as per return submitted by contractor was unauthorised.

The cost along with royalty of differential quantity of unauthorised excavated mineral worked out to be ₹ 27.20 crore<sup>4</sup>.

We also found that Director General of Mines Safety, Ajmer had ordered on 25 February 2009, for closure of the mining activities under rule 22 (A) (2) of the Mines Act, 1952. The closure order was not found (December 2010) withdrawn. The Lessee however continued production despite ban on mining

---

<sup>4</sup> (3,29,743 x 75 x 11).

activities, therefore, a legal notice was served (6.1.2010) by ME. Due to non-compliance of the notice, the lease was revoked (6.5.2010) forfeiting Security Deposit.

We noticed that during ban period the Department had issued *rawannas* for dispatch of mineral. As per the return submitted, the lessee had excavated and removed 22,803 ton of mineral lime stone during March 2009 to March 2010 which was illegal. The cost and royalty of such mineral worked out to ₹ 1.88 crore (22,803 X 75 X 11).

Thus, ₹ 29.08 crore (₹ 27.20 crore + ₹ 1.88 crore) being cost of illegally despatched mineral was recoverable from the lessee, for which the Department had not taken any action. The Department had not ensured actual quantity of mineral obtained and despatched from lease areas against the *rawannas* issued despite receiving monthly returns of production/dispatch by the Lessee.

When we pointed out it (December 2010), the ME, Ramganjmandi, stated (December 2010) that matter was referred (13.01.2010) to DMG. We do not accept reply because after lapse of nearly two years of the inspection of the lease area, no action/decision had been taken for recovering the amount of illegally excavated and despatched mineral.

The matter was reported to the Department and the Government in January 2011. We are awaiting their replies (December 2011).

### 6.7.8 Unauthorised excavation and use of minerals by Public Works contractors

As per Government order dated 3 October 2001 and 8 October 2008, the Public Works contractor shall have to obtain short term permit (STP), for the minerals to be used in the works, from the concerned ME/AME before starting the work. The contractor have to submit record for assessment of the royalty of the minerals used in work within 15 days of completion of the work. In case of use of mineral in work without STP, the concerned Works Department is responsible for depositing cost of the minerals used without STP. As per rule 63 of the RMMC Rules, cost of entire excess quantity of the minerals excavated and used shall be recovered, if such quantity exceeds 25 per cent over and above permitted in STP. The cost of minerals shall be 10 times of prevalent royalty as per rule 48 of *ibid* rules.

During test check of the records of four ME/AME offices, we found (between June 2010 and November 2010) that 63 work contractors in 79 works excavated/ consumed minerals masonry stone, *bajri*, ordinary soil, gravel *etc.* either without obtaining STP or more than 25 per cent of the quantity permitted in the STPs. The recoverable cost of the minerals alongwith royalty amounting to

₹ 7.03 crore was not recovered as tabulated below:

(₹ in lakh)

Sl. No.	Name of office	Number of		Recoverable cost and royalty amount	Remarks
		Works	Contractors		
1	AME, Jalore	70	57	614.62	STP not taken for minerals used in works.
2.	AME, Jaisalmer	3	2	50.88	-do-
3.	AME, Tonk	4	3	9.69	-do-
4.	ME, Makrana	2	1	27.53	Quantity of minerals used more than 25 per cent authorised in STP.
<b>Total</b>		<b>79</b>	<b>63</b>	<b>702.72</b>	

When we pointed out (June 2010 to November 2010), the AME, Jalore stated that action for recovery was being taken, while AME, Jaisalmer stated that royalty was not leviable as per Government order dated 8 October 2008. AME, Tonk stated that double royalty was deducted as per Government order dated 17.6.85, while reply remained awaited from ME, Makarana. We do not accept reply furnished by AME, Jaisalmer as STP was to be obtained prior to starting of the work. We also do not accept reply of AME, Tonk because Government order dated 17 June 1985 had become redundant after RMMC Rules, 1986 coming into effect.

The cases were sent to the Department and reported to Government (July 2010 to November 2010). We are awaiting their replies (December 2011).

### 6.7.9 Unauthorised mining by lessee

Section 22(3) and 22A(2) of the Mines Act, 1952 provide that where in respect of any matter relating to safety under the Act, the owner of a mine fails to comply with the provisions relating to mines and safety, the Chief Inspector may, by order, prohibit the employment of any person in the mine. Further, section 21(5) of the MMDR Act provides that whenever any person raises, unlawfully any mineral, the State Government may recover mineral so raised or the price thereof along with royalty.

During test check of the records of the Mining Engineer (ME), Rajsamand Division-II, we noticed (August 2010) from royalty assessment orders and returns submitted by lessee that a mining lease number 5/98 for mineral soap stone and dolomite was effective in favour of Shri Mahesh Mantri. The lease area was inspected on 18 July 2000 by Dy. Directors of Mines

Safety, Udaipur and serious and dangerous contraventions of the mines safety provisions were found during mining operations. Therefore, a prohibitory order for employment of workers was issued on 19 July 2000 by the Director General of Mines Safety (DGMS), Udaipur. The DGMS accorded permission on 08 May 2006 to commence rectification and prohibitory order was vacated on 16 April 2008.

We found that the lessee continued mining activities in violation of prohibitory order. The Department also issued *rawannas* for excavation/despatch of minerals. The mineral excavated and despatched during the period of prohibitory order (i.e. 19.7.2000 to 8.5.2006) was illegal, which requires recovery of cost of mineral ₹ 2.49 crore.

When we pointed out it, the AME stated (27 August 2010) that the lessee commenced the rectification job to remove the causes. Mining was not done in the prohibited area. We do not accept reply because the DGMS permitted to commence the rectification job on 8 may 2006 and finally vacated the prohibitory order on 16 April 2008. Hence excavation of mineral during 19.7.2000 to 8.5.2006 was illegal.

The matter was reported to the Department and reported to the Government (October 2010). We are awaiting their replies (December 2011).

### 6.7.10 Unauthorised excavation/despatch of minerals

Rule 48 (1) and (5) of the RMMC Rules provide that no person shall undertake any mining operation except under permission granted under these rules. Whenever any person, without a lawful authority, raises any mineral from any land and mineral so raised has already been consumed, the AME/ME concerned may recover cost of mineral along with royalty. The cost of mineral will be computed as ten times of the royalty at the prevalent rates. Further, rule 48(3) of *ibid* Rules provides that contravention of sub-rule 48(1) shall be punishable with imprisonment or with fine which may extend up to ₹ 5,000 or with both. The AME/ME may, either before or after the institution of the prosecution, compound the offence committed in contravention of sub-rule 48(1) on payment of such sum as he may specify. The unauthorised cases of mining should be lodged in court or recovery of the cost of the minerals be affected early. As per rule 18(9) (c) of the *ibid* rules, the lessee or any other person shall not remove or despatch or utilise the mineral from the mines and quarry without *rawanna*.

#### 6.7.10.1 Delay in taking action against unauthorised excavation/despatch of mineral

During test check of the records of the ME, Jodhpur, we noticed (March 2011) that 65 cases of illegal excavation/despatch of mineral 49,909 MT khandas and 34,895 MT sand stone worked out as per pit measurement, were entered in the illegal mining register. The *panchnamas* were prepared (June 2009 to February 2010) and notices were issued to the offenders for recovery of cost of the illegally excavated/despatched mineral and FIR was lodged except in 17 cases. Thus, the cost of mineral, as worked out by audit along with royalty, ₹ 2.08 crore<sup>5</sup> was recoverable.

When we pointed out, the ME stated (March 2011) that after finalisation of the *panchnamas*, recovery would be affected. We do not accept reply as even after

<sup>5</sup> (49,909x10x11+34,895x40x11)

lapse of more than one year of preparation of *panchnamas*, decision to recover the amount is pending.

The matter was pointed out to the Department and reported to the Government (March 2011). We are awaiting their replies (December 2011).

### 6.7.10.2 Non-raising demand of mineral excavated unauthorisedly

During test check of the records of ME, Udaipur and AME, Jalore, we noticed (September to November 2010) from concession files and panchanamas that four lease holders excavated and despatched mineral marble and granite from outside the lease areas by mis-using *rawannas*. In ME, Udaipur notices were not found issued for recovery of cost. However, the AME, Jalore issued notice (22.9.2010) after pointing out the matter by audit. The recoverable cost of illegally despatched minerals along with royalty worked out to ₹ 2.51 crore as detailed below:

(₹ in lakh)

Sl. No.	Name of the ME/ AME office	Lease No./ Mineral	Quantity of marble illegally despatched (MT)	Recoverable cost of mineral along with royalty (MT X 175 X 11)
1.	Udaipur	649/90 (Marble)	4,748	91.40
		880/89 (Marble)	3,245	62.47
		406/91 (Marble)	4,717	90.81
2.	Jalore	27/98 (Granite)	1,248	5.94
<b>Total</b>				<b>250.62</b>

On pointing out (September and November 2010) the ME, Udaipur stated that matter was pending since 23.10.2009 at Directorate level, while the AME, Jalore stated that for misuse of *rawannas*, notice for recovery of cost of mineral had been issued on 22.09.2010.

Matters were pointed out to the Department and reported (October and December 2010) to the Government. We are awaiting their replies (December 2011).

### 6.7.10.3 Unauthorised excavation of mineral marble

During test check of the records of the ME, Bikaner, we noticed (December 2010) that a lease No.64/2000 for mineral marble was effective in favour of Shri Amit Modi. The mining plan of the lease area was prepared in June 2004 and approved in June 2006. As per the mining plan, the maximum overburden was 5.5 metre, marble recovery including luffer and *khandas* was 80 per cent, of which 10 per cent mineral locked during mining. According to the mining plan 10,881 MT quantity of mineral marble had already been excavated and despatched from two pits. Thus marble recovered worked out to 7,834 MT (80 per cent of 10,881 MT less 10 per cent). However, the lessee paid royalty only for 2,585 MT marble mineral during the period up to March 2005. As such, 5,249 MT mineral was illegally despatched. As per mining plan, recovery of marble block was 30 per cent and rests were *Khandas*. Therefore, the unauthorised despatch of marble block worked out to 1,575 MT and of

*Khandas* to 3,675 MT. The cost of illegally despatched mineral along with royalty worked out to ₹ 45.33 lakh, which had not been recovered.

When we pointed out it, the ME stated that the mineral recovery factor was 20 to 30 *per cent*, however, inspection of the area would be conducted. We do not accept reply as recovery of mineral had been worked out on the basis of parameters shown in the mining plan, which are based on geological study and were duly approved by the Department.

The matter was reported to the Department and the Government (February 2011). We are awaiting their replies (December 2011).

#### **6.7.10.4 Non-recovery of cost illegally despatched mineral**

During test check of the records of ME, Sikar, we noticed (October 2010) that mining lease no. 8/91 for major mineral lime stone and two leases no. 26/93 and 27/93 for minor mineral marble were effective in favour of M/s Oriental Talc Products Pvt. Ltd. The lease area was inspected by Surveyor on 30 June 2008 and by AME on 1 July 2008. During inspections, it was found that the lease holder despatched mineral from dump site without obtaining STP. ME, Sikar prepared the case and sent (August 2008) to DMG. However, the cost along with royalty of 1905 MT (127x15) minerals despatched illegally, during the period 27.06.2008 to 30.06.2008, ₹ 11.53 lakh (1905x55x11) had neither been raised nor recovered even after a lapse of 28 months.

When we pointed out it, ME Sikar issued (06 January 2011) legal notice to lessee for depositing amount of illegally despatched mineral. Against the Legal notice, the lessee appealed to the Government. As per Government order (07 February 2011), the lessee had deposited (09 February 2011) 50 *per cent* amount of ₹ 5,44,500.

The matter was pointed out (November 2010) to the Department and reported to the Government. We are awaiting their replies (December 2011).

#### **6.7.11 Non-adherence to Government instructions**

Rule 32 of the RMMC Rules envisages that RCC/ERCC may be granted through tender. The State Government issued instructions in May 1962 stipulating that if any tenderer to whom a contract was allotted, defaulted in its execution, the Department could recover contract damages from him, provided that such clause was incorporated in the tender notice.

We noticed (November 2010) that the above mentioned damage clause was not incorporated by Mines Department in notice inviting tender (NIT) published for grant of RCC. The ME Karauli,

invited tenders for RCC for mineral *Bajri* for the period between 1 April 2009 and 31 March 2011. The highest tenderer M/s Shiva Corporation India Ltd. (contractor), who was awarded (March 2009) contract at ₹ 55.61 lakh *per annum*, defaulted in execution of contract. The contract was retendered and again granted (February 2010) to the same M/s Shiva Corporation India Ltd. at a lesser amount of ₹ 26.12 lakh *per annum*. In the absence of contract damages clause in NIT, the loss due to short realisation of amount could not be recovered from the defaulter. Moreover, no provisions were made in the

rules for debarring such defaulter contractors for participating in the tender process. Subsequently this resulted in loss of revenue to the State Government amounting to ₹ 22.54 lakh despite adjusting security ₹ 6.95 lakh.

When we pointed out it, the ME stated (November 2010) that he acted as per instructions of the DMG. We do not accept reply as the loss had occurred due to non-inclusion of contract damages clause in the tender notice.

The matter was reported (December 2010) to the Department and Government. We are awaiting their replies (December 2011).

#### **6.7.12 Irregular refund/adjustment of forfeited earnest money**

Rule 35(k) of the RMMC Rules, provides that if the provisionally selected tenderer fails to deposit the security money within the specified time, the earnest money deposited shall be forfeited. Further, rule 57 of *ibid* rules provides that any clerical or arithmetical mistake in any order passed by Government or any other officer and any error arising therein from accidental slip or omission may be corrected.

During test check of the records of the DMG, we noticed (January, 2011) that the earnest money of M/s Parth Network Private Limited amounting to ₹ 20 lakh deposited for sanction of excess royalty collection contract for mineral masonry stone for the area tehsil Bhilwara and Sahada of District Bhilwara was forfeited (05 March 2009) due to non-depositing of security money within the specified period. The order of forfeiting earnest money was rectified (24 November 2009)

by DMG under rule 57 of the RMMC Rules and the amount of earnest money, previously forfeited was ordered to be refunded/adjusted on the ground that tenderer wanted to participate in the tender for mineral sand instead of masonry stone. The rectification order (24.11.2009) of refunding earnest money was irregular and it extended undue benefit to the contractor. Further, the contractor had not raised any objection during opening of tender. The record revealed that the tenderer submitted tender for mineral masonry stone and failed to deposit security amount within stipulated period. So, the matter did not pertain to any clerical or arithmetical mistake, therefore, refund/adjustment of forfeited earnest money was irregular.

When we pointed out it (January 2011), the DMG stated (January 2011) that the refund/adjustment order was issued as per direction of the Government. We do not accept reply because the refund/adjustment of forfeited earnest money amounting to ₹ 20.00 lakh under rule 57 of *ibid* rules was irregular.

The matter was pointed out to the Department and reported to the Government in February 2011, their replies are awaited (December 2011).

### 6.7.13 Undue favours to lessee

Rule 43(2) and (4) of the RMMC Rules provide that any person aggrieved by any order passed by the Director under these rules shall have the right of appeal to the Government. The orders passed by the Government in appeal shall be final. Rule 18(3) of the *ibid* rules provides that the lessee shall pay yearly dead rent in advance.

During test check of the records of the AME, Banswara, we noticed (December 2010) that a mining lease number 1/96 for mineral marble was effective in favour of Shri Shanti Lal Maida. The lease was cancelled on 03 December 2003 on the

ground of non-payment of outstanding dues by the lessee forfeiting security deposit. The possession of mine was taken back on 19 December 2003.

The lessee approached the Government for resumption of lease stating that he was ready to deposit all dues shown against him on the basis of which lease was cancelled. After considering the appeal in court, the Deputy Secretary (DS), Mines remanded (10 January 2005) the case and asked the lessee to deposit all the dues along with interest thereon and 50 *per cent* amount of dead rent as penalty latest by 10 May 2005.

The lessee failed to comply order dated 10.01.2005 of the DS, Mines. Later on, after a lapse of more than four years, when the order dated 10.01.2005 had already attained finality, the lessee requested (26.08.2009) to the DS, Mines to extend the period of depositing dues. The DS, Mines accepted (17.09.2009) request of the lessee on the similar conditions of his previous order dated 10.01.2005. This was inconsistent to rules as there was no provision in the rules to review/revise the orders, after lapse of more than four years, by the same authority, particularly when earlier order had attained finality. The lessee paid dues amount ₹ 15.86 lakh in (September and October 2010) and lease was renewed in his favour.

Further, the dead rent, for the period from 11.05.2005 to 12.10.2009 amounting to ₹ 12.50 lakh was neither demanded by the Department nor deposited by the lessee. The dead rent was recoverable as the Government had decided (10.01.2005) to continue the lease in favour of lessee and again revived (17.09.2009) the order dated 10.01.2005 on the request of the lessee.

Thus, by reviving lease undue favour was given in favour of lessee after lapse of more than four years was not covered under rules. Moreover, dead rent ₹ 12.50 lakh was also not recovered from the lessee for the period 11.05.2005 to 12.10.2009.

When we pointed out it (December 2010), the AME, Banswara stated that possession of the lease area was taken by the Department on 19.12.2003 and given again to lessee on 12.10.2009. Hence, dead rent for the above period was not recoverable. We do not accept reply as the lessee had agreed to take possession and Government also ordered for assigning lease in his favour but lessee became defaulter in depositing the dues. Moreover, in this case the renewal of lease as per orders dated 17.09.2009 was against the rules.

The matter was pointed out to the Department and reported to the Government (January 2011), their replies are awaited (December 2011).

#### 6.7.14 Non-levy of penalty

As per rule 18(21)(a) of the RMMC Rules, in case of any breach of any covenant or condition contained in the lease by the lessee, the competent authority may determine the lease and take possession of the said premises forfeiting security money or in the alternative may impose a penalty at prescribed rates.

As per marble/granite policy, 2002, failure to deploy machinery in a period of one year, the competent authority may allow a further period of six months for deployment on payment of a penalty equal to 50 per cent of the annual dead rent.

During test check of the records of the AME, Jaisalmer, we noticed (October 2010) that in 61 mining leases, AME issued notices, of breaches of conditions of the lease/policy to the lessees in December 2009. The lessees did not remedy the breaches upto October 2010. In these cases, neither mining leases were determined nor were penalties levied. The leviable penalty amount worked out to ₹ 11.04 lakh.

When we pointed out it, the AME stated (October 2010) that action for recovery shall be taken after scrutinizing individual cases.

Matter was reported to the Department and to the Government (November 2010). We are awaiting their replies (December 2011).

#### 6.7.15 Non-raising demand of cost of mineral used at the stone crushers

Rule 69 of the RMMC Rules, provides that the assessing authority may summon any of the parties using and/ or dealing in the mineral in the State and may demand necessary information. Any person engaged in trading of minerals shall maintain a correct account of mineral purchased, stocked and sold for inspection, if required by assessing authority, failing which the assessing authority may recover cost, along with royalty, of the mineral from the trader as per rule 48(5) of the *ibid* Rules. The cost of the mineral will be computed as ten times the royalty payable at the prevalent rates.

During test check of the records of the ME, Ajmer, we noticed (July 2010) that during inspection of 19 stone crushers by Mines Foreman, between October 2003 and September 2008, total 8,810 ton mineral masonry stone and crusher grit was found at site, but the source of procuring the mineral was not intimated by the crusher owners

despite issuing show cause notices to them. The demand of cost of 8,810 ton mineral along with royalty ₹ 6.64 lakh as worked out by audit was not raised.

When we pointed out (July 2010), the ME stated (15.07.2010) that action for recovery would be initiated after examining the cases. We do not accept reply because notices have already been issued to the crusher owners but recovery was awaited from last two to seven years.

The matter was pointed out to the Department and reported to the Government (August 2010), their replies are awaited (December 2011).

## 6.7.16 Non-raising demand of dead rent and interest

### 6.7.16.1 Non-raising demand of differential amount of revised dead rent

The rates of dead rent were revised from 13.08.2009 under the section 9A (2) of the MMDR Act. Further, rule 64A of the MC Rules provides that lessee shall be liable to pay simple interest at the rate 24 *per cent* per annum on the delayed payments for the period of delay computing from 60th day of the due date.

During test check of the records of the ME, Sojatcity, we noticed (February 2011) that in 11 cases differential demand of dead rent amounting to ₹ 10.14 lakh as per revised rates was not raised. It also attracted recovery of interest ₹ 1.15 lakh (calculated upto 31.03.2010) for delayed period.

When we pointed out, the ME, Sojatcity replied that amount would be recovered.

Matter was reported to Government and Department (March 2011). We are awaiting their replies (December 2011).

### 6.7.16.2 Non-raising demand of interest

(i) During test check of the records of the AME, Sriganganagar, we noticed (September 2010) that though M/s Rajasthan State Mines and Minerals Ltd. had deposited premium charges belatedly ranging from 1028 days to 1705 days, yet the AME did not levy and recover interest amounting to ₹ 23.87 lakh on the late deposits.

When we pointed out, the Department stated (November 2011) that objected amount has been recovered.

(ii) During test check of the records of the AME, Jalore, we found (September 2010) that M/s Rajasthan State Mines and Minerals Ltd., holder of four leases for mineral Fluorspar did not deposit dead rent timely as per revised rates. The dead rent for the period from March 2000 to March 2010 were deposited on 20.09.2010. The Department did not calculate interest on delayed payment which worked out to ₹ 14.13 lakh.

When we pointed out, the AME stated (September 2010) that action for recovery would be taken.

Rule 61 of the RMMC Rules provides that interest at the rate of 15 *per cent* on all dues in respect of royalty, dead rent *etc.* shall be charged after 15 days from the date it becomes due.

**6.7.16.3** In 54 cases, demand of interest of ₹ 7.30 lakh (calculated up to 31 March 2010) on delayed payments was not raised.

When we pointed out it, the AME stated (September 2010) that the demand of interest had been raised. However, the details of recovery have not been intimated (May 2011).

Matters were reported to Government and Department (October 2010 and November 2010). We are awaiting their replies (December 2011).

## **B. Colonisation Department**

### **6.8 Incorrect calculation of cost of land in special allotment**

Rule 13A(1) of the Rajasthan Colonisation (Allotment and Sale of Government Agricultural Land in the Indira Gandhi Nahar Canal Colony Area) Rules, 1975 envisages that State Government may allot Government land by special allotment notifying the area available and its rate. The rates of land under special allotment shall be increased in same ratio as the increase in DLC rates of same class of land in the vicinity.

During test check (August 2010) of the records and information furnished by the Commissioner, Colonisation, Jaisalmer, we found that the Commissioner had notified (21.12.2001 and 14.12.2007) the land available for special allotment. The Dy. Commissioner (Colonization), Jaisalmer-I however in 21 cases wrongly charged the cost of special allotment of land at lower rate instead of prescribed rates of the same vicinity. It resulted in short

calculation of land ₹ 13.00 lakh.

When we pointed out (August 2010), the Dy. Commissioner Colonisation, Jaisalmer stated that action would be taken after reviewing the cost from the relevant records.

## **C. General Administration Department**

### **6.9 Non-recovery of rent from Government Companies/Statutory Corporations and Bank**

Rule 251 (a) of the Public Works Financial and Accounts Rules envisages that when a residential or non-residential building is let out to a private person, rent should be recovered monthly in advance at the market rate prevailing in locality for similar accommodation used for similar purpose. The lease should be sanctioned and entered into by the Head of Department. General Administration Department (Estate) issued 19.1.1998 order that interest at 12 *per cent* shall be recovered on outstanding rent. Further, the rent was to be increased as per the provisions of Rajasthan Rent Control Act (RRC Act) as amended from time to time, but where the RRC Act is not applicable, the rent shall be revised after every 5 years on the basis of reassessment of the rent by the PWD or an increase in rent by 25 *per cent*, whichever is less.

Public Works Department New Delhi made rent assessment (October 1994) of the area rented out to the Government Companies/ Statutory Corporations and Bank situated at Bikaner House, New Delhi.

Matter regarding non recovery of rent from Government companies/ statutory corporations and banks was incorporated in the Comptroller and Auditor General of India's Audit Report (Revenue Receipts) for the year ended 31st March 2003 at para 7.4 and discussed by the Public Accounts Committee (PAC) during

the year 2008-09. The PAC recommended to fix responsibility of erring

officers, The Government (August 2011) informed that the matter was very old and all erring officers had retired, therefore fixing responsibility on them is not possible now.

The Government further intimated that the cabinet had approved the revised rates of rent to be charged from Rajasthan State Road Transport Corporation (RSRTC), Rajasthan Tourism Development Corporation (RTDC), Rajasthan Small Industries Corporation Limited (RajSICO) on 10 August 2011. As per cabinet's decision rent is to be realised at rates revised retrospectively. Details of rent recoverable as per revised rates are mentioned in following table:-

(₹ in lakh)

Sl. No.	Name of the corporations/ companies	Occupied area (Sqm)	Rate of rent	Recoverable rent 2/2003 to 3/2010	Rent paid	Rent due
1.	Rajasthan State Road Transport Corporation (RSRTC)	2,093.85	₹ 20 per trip per bus	Information regarding number of Buses and trips not available. To be assessed by Department.		
2.	Rajasthan Tourism Development Coporation (RTDC)	2,225.87	0.29	24.76	Nil	24.76
3.	Rajasthan Small Industries Corporation Limited (RajSICO)	146.00	0.40	2.87	1.35	1.52
4.	State Bank of Bikaner and Jaipur (SBBJ)	40.12	0.15	6.12 (upto 20.5.2006) as building got vacated	Nil	6.12
5.	Rajasthan State Industrial Development and Investment Corporation (RIICO)	159.81	0.30 (Feb & March 2003 ) 0.54 (April 03 to March 2010 )	46.09	33.10	12.99
6	Rajasthan Co-operative Dairy Federation Limited	32.22	0.14	11.70	8.16	3.54
<b>Total</b>				<b>91.54</b>	<b>42.61</b>	<b>48.93</b>

The State Government even had not executed any rent agreement, in absence of which there is little scope for affecting recovery of rent. Director, Estate, responsible for recovery of rent of Government buildings had also not taken timely and regular action for recovery of rent. The Department had also not taken action for evacuation of accommodation against defaulter occupants.

Thus, due to let out of Government accommodations without entering into any lease deed, not pursuing the matter vigorously for recovery of outstanding rent the Government deprived of revenue ₹ 48.93 lakh, in spite of revision of rates retrospectively.

## **D. Public Works Department**

### **6.10 Failure of Department in revising the bid price resulted in loss of revenue**

As per clause 30 of the agreement executed with the bidder, if rates of toll tax are revised by the State Government during currency of the contract in comparison to rates on the basis of which reserve price has been calculated, the bid amount shall stand revised from the date of notification by the same ratio in which toll rates enhanced.

The State Government revised rates of Toll collection from 01 April 2009, However, the revised rates were not implemented by the Executive Engineer, Public Works Department Division-I Bharatpur for Toll collection on Bharatpur-Mathura (SH-01) bye-pass till date of audit. As a result, Government had been deprived of revenue of ₹ 73.35 lakh as detailed below:

1. Clause 30 of agreement with bidder provided that tender bid amount would be revised in the same proportion by which the reserve price enhanced and to be calculated at revised rates. The Executive Engineer, Bhartpur did not revise the reserve price from ₹ 247.00 lakh to ₹ 289.00 lakh and in turn enhance the bid price of bidder (Shri Sheesh Ram) from ₹ 248.20 lakh to ₹ 290.40 lakh. This resulted in loss of revenue of ₹ 14.07 lakh for the period 01 August 2008 to 31 July 2009.
2. As the tender bid during 01 August 2009 to 04 March 2010 could not be materialised and Department collected Toll at its own level at the old rates. As a result, there was a loss of revenue of ₹ 17.54 lakh calculated proportionately (17 per cent on bid price for 01 August 2008 to 31 July 2009) on actual Toll collection of ₹ 103.20 lakh during said period.
3. Department awarded Toll collection to bidder (Shri Sheesh Ram) for the period 05 March 2010 to 04 March 2011 for ₹ 245.52 lakh based on reserve price of ₹ 200 lakh calculated at old rates. Had the Department calculated reserve price at revised rate, the bid price would have been increased in proportion of revised rates (17 per cent) on the same analogy. Thus, there was a revenue loss of ₹ 41.74 lakh to the Government.

Thus, not implementing revised rates of collection of Toll tax by the Department resulted in loss of ₹ 73.35 lakh.

While accepting the facts, Executive Engineer, Division-I Bharatpur stated (April 2011) that action for enhancing rates of Toll collection could not be taken due to receipt of said notification (March 2009) belatedly (January 2011). We do not accept reply as revised rates were notified in Government Gazette part 4 (c) on 30 March 2009, the Department's plea of ignorance was not excusable.

The matter was pointed out to the Department and reported to the Government (August 2011). We are awaiting their replies (December 2011).

**(H. K. DHARMADARSHI)**  
**Accountant General**  
**(Commercial & Receipt Audit), Rajasthan**

**JAIPUR**  
**The**

**Countersigned**

**(VINOD RAI)**  
**Comptroller and Auditor General of India**

**NEW DELHI**  
**The**



# ***ANNEXURES***

**Annexure-A**  
(Refer paragraph 1.2.4)

**Position of paragraphs which appeared in the Audit Reports and those pending discussion as on 31 December 2011**

Name of tax		2005-06	2006-07	2007-08	2008-09	2009-10	Total
Taxes on Sales, Trade etc.	Paras appeared in the Audit Report	14	11	5	10	8	48
	Paras pending for discussion	2	3	5	10	8	28
Taxes on Vehicles	Paras appeared in the Audit Report	6	6	9	3	4	28
	Paras pending for discussion	-	-	9	3	4	16
Land Revenue	Paras appeared in the Audit Report	2	1	4	-	3	10
	Paras pending for discussion	-	-	-	-	3	3
Stamp duty and Registration fee	Paras appeared in the Audit Report	3	3	4	4	5	19
	Paras pending for discussion	-	-	-	-	5	5
State Excise	Paras appeared in the Audit Report	2	5	4	4	2	17
	Paras pending for discussion	-	-	-	-	2	2
Mining	Paras appeared in the Audit Report	9	9	9	18	1	46
	Paras pending for discussion	-	-	9	18	1	28
Others	Paras appeared in the Audit Report	3	6	4	9	5	27
	Paras pending for discussion	1	-	2	2	5	10
<b>Total</b>	<b>Paras appeared in the Audit Report</b>	<b>39</b>	<b>41</b>	<b>39</b>	<b>48</b>	<b>28</b>	<b>195</b>
	<b>Paras pending for discussion</b>	<b>3</b>	<b>3</b>	<b>25</b>	<b>33</b>	<b>28</b>	<b>92</b>

**Annexure-B**  
(Refer paragraph 1.2.4)

**Position of outstanding ATNs due from the Departments  
as on 31 December 2011**

Sl. no.	No. of PAC Report	Date of presentation in Assembly	Name of the Department	Year of Audit Report	No. of action taken notes due
1	210 <sup>th</sup> Report of 2003-04	25.8.2003	Devasthan	1997-98	14
2	89 <sup>th</sup> Report of 2004-05	2.12.2004	Land Revenue	2000-01	03
3	190 <sup>th</sup> Report of 2006-07	29.3.2007	Land Revenue	1999-2000	12
4	193 <sup>rd</sup> Report of 2006-07	29.3.2007	Finance	2001-02	12
5	251 <sup>st</sup> Report of 2007-08	17.3.2008	Mines	2001-02	08
6	252 <sup>nd</sup> Report of 2007-08	17.3.2008	Mines	2002-03	10
7	255 <sup>th</sup> Report of 2007-08	17.3.2008	Land Revenue	2003-04	02
8	268 <sup>th</sup> Report of 2008-09	15.7.2008	General Administration	2002-03	05
9	270 <sup>th</sup> Report of 2008-09	15.7.2008	Registration and Stamps	2004-05	04
10	51 <sup>st</sup> Report of 2010-11	31.8.2010	Public Health Engineering and Public Works	2005-06 & 2006-07	01
11	52 <sup>nd</sup> Report of 2010-11	15.3.2011	Public Health Engineering	2003-04	09
12	65 <sup>th</sup> Report of 2010-11	15.3.2011	Devasthan	2004-05	13
13	66 <sup>th</sup> Report of 2010-11	15.3.2011	Transport	2005-06	17
14	67 <sup>th</sup> Report of 2010-11	15.3.2011	Transport	2006-07	09
15	87 <sup>th</sup> Report of 2010-11	15.3.2011	Forest	2005-06 & 2006-07	06
<b>Total</b>					<b>125</b>

## Annexure-C

(Refer paragraph 1.3.2.2)

## Statement showing status of action taken by the departments/Government on the recommendations highlighted in reviews featured in last five Audit Reports

AR for the year ended	Name of the review	Detail of recommendations accepted	Status
1	2	3	4
31 March 2006	Levy and collection of State excise revenue	<ol style="list-style-type: none"> <li>1. Necessary amendments need be considered in the Acts/rules to fix norms for minimum yield of spirit and beer from raw material.</li> <li>2. An effective control mechanism may be evolved to control LPH produced in the State.</li> <li>3. Effective steps may be considered to make rules to bar participation of <i>benami</i> persons in tender process.</li> <li>4. Internal control mechanism may be strengthened to ensure better financial management.</li> </ol>	<p>The department accepted the audit observations. A committee has been constituted to examine the issue of fixation of norms.</p> <p>The department accepted the facts and stated that it was difficult to physically control a large number of cultivators by limited staff.</p> <p>The department accepted the facts.</p>
31 March 2007	Levy and collection of stamp duty and registration fee	<ol style="list-style-type: none"> <li>1. Prescribing a return by the public offices to the department on the number of documents presented and found deficient. The offices may also be made accountable for cases of short payment of stamp duty not being highlighted. In addition, norms may be laid down for the inspection of public offices by the DIG.</li> <li>2. Prescribing a return to watch the disposal of revision cases by the department.</li> <li>3. Ensuring that the department reviews the registers and ensures prompt disposal of all pending adjudication cases. The monitoring at the apex level may be done by prescribing periodical returns. A time limit for finalisation of these cases may also be prescribed.</li> </ol>	<p>The department stated that the amount was mainly recoverable from the State/Central Government enterprises.</p> <p>The department stated that explanation of the concerned SRs had been called for.</p> <p>The department stated that mostly cases of pending adjustment have been decided.</p>
	Information technology system in Registration and Stamps Department	<ol style="list-style-type: none"> <li>1. Designing and incorporating in the system audit trails to track the transactions, in order to monitor exceptional changes to the data.</li> <li>2. Programming necessary controls into the software to ensure collection of correct amount of stamp duty.</li> </ol>	<p>Reply is awaited.</p> <p>- do -</p>
31 March 2008	Allotment and Sale of land by Colonization Department	<ol style="list-style-type: none"> <li>1. Prescribe a time schedule for notifying allotable land after receipt of chak plans from CAD.</li> <li>2. Specify a time frame for disposal of applications for allotment of land to cultivators and formulate a policy for speedy and expeditious action on such allotment..</li> </ol>	<p>The department accepted the facts and stated that necessary directions had been issued for finalisation of the proposals and notification of every chak plan within six months.</p> <p>The Government accepted the facts and stated that steps would be taken to do the needful. However, the reply was silent about the time frame within which such exercise would be completed.</p>

		<p>3. Ensure that basic records as prescribed by the Act or Rules are maintained by each <i>tahsil</i>.</p> <p>4. Eliminate unauthorised occupation on Government land by taking suitable measures.</p> <p>5. Strengthen the internal control of the department by prescribing periodical returns and other checks, for ensuring prompt recoveries from the allottees in accordance with rules and monitoring other statutory provisions including disposal of land held by TCs.</p>	<p>The Government stated that directions were being issued for maintenance of the relevant registers.</p> <p>-</p> <p>-</p>
31 March 2008	Management and disposal of Nazul properties received from ex-rulers of Rajasthan	<p>1. Consider formulating a system/procedure for conducting surveys to cover all the Nazul properties.</p> <p>2. Prescribe suitable returns for proper management and disposal of Nazul properties.</p> <p>3. Consider maintenance of a DCR and develop a system for raising demand of outstanding amounts.</p> <p>4. Fix a time frame to dispose of Nazul properties so as to save these from further encroachment and deterioration.</p> <p>5. Prescribe norms for conduct of meetings by the committees and a return to monitor the implementation of the decisions taken by them.</p>	<p>The department stated that due to shortage of staff, survey could not be conducted.</p> <p>-</p> <p>-</p> <p>-</p> <p>The department accepted the facts.</p>
31 March 2009	Transition from sales tax to value added tax	<p>1. In the return (VAT-10) alongwith commodity, its classification, schedule number and serial number in the schedule also should be mentioned.</p> <p>2. The Government may make tax audit mandatory for effective implementation of VAT.</p> <p>3. Prior cross verification of input tax credit should be made mandatory</p> <p>4. A computerized mechanism should be introduced for cross verification of records with Central Excise and Income Tax authorities.</p> <p>5. Disposal of cases in appeal should be expedited.</p> <p>6. Minimum penalty for offences may be prescribed.</p>	<p>The column for name of commodity was added in the forms.</p> <p>The work of audit will be done in current year.</p> <p>In the next year of the claims will be accepted after the cross verification of input tax credit.</p> <p>Instructions were issued to all circles to undertake cross verification by collecting information.</p> <p>Appeal cases pending for more than one year would be disposed off by March 2010.</p> <p>The penal provisions in RVAT Act provide for penalty on various offences, but at the direction of the tax authorities.</p>
31 March 2009	Levy and Collection of tax by the Transport Department	<p>1. Putting in place a monitoring mechanism by way of periodical returns to ensure collection of temporary registration fee.</p> <p>2. Evolving a system by way of periodical inspections for ensuring imposition of penalty in case of late registration</p>	<p>The transport commissioner, while accepting the audit finding, stated that a circular would be issued to RTOs/DTOs to ensure levy of fee.</p> <p>The department accepted the audit finding and informed that the compounding fee has been increased.</p>

		<ol style="list-style-type: none"> <li>3. Putting in place a monitoring mechanism to ensure collection of MVT/SRT at prescribed rates and levy of penalty in cases of non/short payment of tax.</li> <li>4. Strengthening functioning of internal audit wing in order to take appropriate measures for plugging the leakage of revenue and comply with the provisions of the Act.</li> </ol>	<p>The department agreed to take action to levy the penalty.</p> <p>-</p>
	Receipts of Public Health Engineering Department	<ol style="list-style-type: none"> <li>1. Prescribing a periodical monitoring system in the department to assess the correctness of arrears and ensure speedy recovery of arrears.</li> <li>2. Prescribing a provision for levy of interest on late deposit of revenue by collecting agency.</li> <li>3. Taking effective steps to replace defective water meters.</li> <li>4. Strengthening the internal control system for better financial management by the department.</li> </ol>	<p>The efforts would be made to assess the correct position of arrears. The Government accepted the facts and assured that necessary amendment in the MOU will be carried out.</p> <p>The department will look into the issue of non-levy of interest on outstanding revenue.</p> <p>The Government accepted the facts and assured that action will be taken to replace the faulty meters.</p> <p>The Government agreed to issue necessary instructions to the concerned officers.</p>
31 March 2010	Performance Audit on Allotment/Sale of Land and Recovery of conversion charges	<ol style="list-style-type: none"> <li>1. creation of a separate Department of Land Resources to provide a focused approach to land related matters;</li> <li>2. prescribing periodical monitoring system in the Department to assess the position of arrears correctly and ensure its speedy recovery;</li> <li>3. establishing effective monitoring system for conducting settlement operations and for adopting a uniform jarib for measurement of land;</li> <li>4. prescribing a provision for timely resumption of Government land not being used for allotted purpose;</li> <li>5. allotment of land to ULBs only after ascertaining its potentiality to sell;</li> <li>6. developing a mechanism for monitoring sale of Government land and early deposit of Government share of sale proceeds in Government account;</li> <li>7. evolving a periodical inspection for verification of Government's share of conversion charges;</li> <li>8. strengthening the internal control system for better financial management in the department;</li> <li>9. to put in place a reliable system of maintenance of land records to avail of the benefits of computerisation. Periodical back up of data may be ensured; and</li> </ol>	<p>-</p> <p>-</p> <p>-</p> <p>The matter is under consideration of the Government.</p> <p>Action for recovery will be taken soon.</p> <p>Action for recovery will be taken soon.</p> <p>Action for recovery will be taken soon.</p> <p>A special campaign will be launched to settle the outstanding paras.</p> <p>-</p>

		10. to implement a system to avoid delay in preparation of jamabandi with accuracy and on line updation of mutation orders so that computerised copies of records of rights may be distributed on demand to the land holders.	-
Stand Alone Report on Mining Receipts	1. The Government may consider stacking of non-saleable or sub-grade minerals in such a manner so that they can be retrieved easily in future and also ensuring zero waste as envisaged in the National Mineral Policy, 2008.	The Policy of Mineral Dolomite would be revised to dispose of it.	
	2. A provision may be made for recovery of damages caused to environment and reclamation of the area due to illegal excavation of minerals.	-	
	3. A strong mechanism should be developed to ensure speedy recovery of sums due to Government.	-	
	4. Efforts may be made for augmenting revenue of Mining sector and for recovery of old dues.	-	
	5. Internal audit may be conducted on regular basis for detecting malfunctioning of the system, leakage of the revenue and compliance of rules and provisions of the Act.	Internal audit had been pending due to shortage of staff.	
	6. The Government may create an effective co-ordination mechanism among various departments.	Application had been pending due to non-completion of formalites pertaining to revenue records, obtaining no objection certificate from collectors and forest department etc.	
	7. The Government may specify a time frame for disposal of applications for grant of mining leases.	-do-	
	8. Guidelines may be issued for granting fresh leases in case of surrendered and cancelled leases. A system of receiving no objection certificates from different departments of Central/State Government for timely execution of sanctioned leases may be evolved.	-do-	
	9. The Government may consider inclusion of contract damage clause in the tender notices.	E-tendering system would be adopted and second lowest tender will be accepted if it was within 10 per cent less of the highest tender amount.	
	10. The Government may consider instituting a mechanism of surveys to ensure that royalty is charged as per rules.	Demand had been raised but recovery is pending.	
	11. The Government may consider instituting a periodical monitoring system in the Department to watch pending royalty assessment cases and recoverable royalty amount and to verify the actual despatch of mineral as per pit measurement.	The pending royalty assessments of their factories would be got done early.	

		<p>12. The issue of excess royalty collection contracts should be examined in depth and proper policies are framed to secure ecology and wealth of the State.</p> <p>13. The Government may evolve a procedure to eliminate misuse of <i>rawannas</i> and timely recovery of cost of minerals.</p> <p>14. The Government may consider doing away with the committee intervention and put in place an appropriate departmental mechanism to decide upon cases of illegal mining.</p> <p>15. The Government may evolve a concrete system to recover all pending royalty/cost of minerals used in works before final payments to contractors. For this purpose strong co-ordination is required to be developed between Works Department and Mining Department.</p> <p>16. The Government may clearly define the rate of royalty to be recovered in cases of despatch of minerals more than 10 <i>per cent</i> but upto 25 <i>per cent</i> over and above the quantities authorised in short term permit.</p> <p>17. The Government may consider preparation of <i>panchnamas</i> in prescribed format and setting a time frame for approval of cost of illegal despatches of minerals.</p> <p>18. The Government may consider setting a time frame for disposal of pending appeal cases.</p> <p>19. The Government may take effective steps for equipping the laboratory adequately to expedite the analysing/testing of the samples received in laboratory or alternatively consider outsourcing this activity.</p> <p>20. The Government may consider maintaining systematic and authentic records of expenses incurred on prospecting the areas and recovery made from lease holders.</p>	<p>It was a system issue. The ERC contracts were granted to increase revenue. Efforts were being made by employing border home guards <i>etc.</i></p> <p>-</p> <p>A committee would be set-up for finding out the facts.</p> <p>Action will be taken after receiving details of full quantity of minerals used in work.</p> <p>The lacunae in the rules and agreed to amend these suitably.</p> <p>Action will be taken after verifying the <i>panchanamas</i>.</p> <p>The pending appeals were a regular process; we don't accept the reply as appeals are pending for more than five years.</p> <p>Due to shortage of staff, pendency of tests has increased. Pending samples analysis will be completed early.</p> <p>The dues from M/s Wollcame have been recovered and balance dues from other lease holders would be recovered.</p>
--	--	--	---

**Annexure D**  
**(Refer Para No 2.14.4 (i))**

**Details of incorrectly allowed deferment of tax without deducting input tax credit:**

(₹ in lakh)

S. no.	Name of circle	Name of dealer	Assessment year/ (Month of assessment)	Total output tax	Input tax credit	Net tax payable	Percentage of deferment allowable	Tax to be deferred	Tax deferred	Excess deferment of tax	Interest (upto March 2010)
1	2	3	4	5	6	7(5-6)	8	9	10	11(10-9)	12
1	Special III, Jodhpur	M/s Suncity Alloys Pvt. Ltd., Jodhpur	2006-07 (June 08)	99.02	90.59	8.43	30.00	2.53	29.74	27.21	11.43
			2007-08 (September 09)	143.88	101.41	42.47	24.00 (30 & 20)	10.19	34.63	24.44	7.33
		M/s Escon Surgicals Ltd., Jodhpur	2006-07 (March 09)	161.08	15.40	145.68	20.42 (30 & 20)	29.75	32.90	3.15	1.32
			2007-08 (February 10)	62.96	21.12	41.84	43.00 (50 & 40)	17.99	27.13	9.14	2.74
2	Commercial Taxes Office, Tonk	M/s Amit Industries, Niwai M/s Isuzu Garments	2007-08 (15.3.10)	10.52	9.47	1.05	50.48	0.53	5.26	4.73	-
			2007-08 (31.3.10)	10.92	0.69	10.23	41.06 (50 & 40)	4.20	4.49	0.29	-
3	Special Circle, Pali	M/s JK Laxmi Cement Ltd, JK Puram	2008-09 (September 09)	3112.50	113.31	2999.19	75.00	2249.39	2334.37	84.98	15.30
4	Special Rajasthan Circle, Jaipur	M/s Mangalm Cement Ltd	2006-07 (September 09)	1692.80	41.60	1651.20	75.00	1238.40	1269.60	31.20	13.10
			2007-08 (March 10)	1697.41	85.16	1612.25	75.00	1209.19	1226.11	16.92	5.08
5	Special Circle II, Jodhpur	M/s Mineral Industries Pvt. Ltd. Jodhpur	2007-08 (February 09)	32.18	16.52	15.66	14.30	2.24	10.79	8.55	2.57
<b>Total</b>				<b>7023.27</b>	<b>495.27</b>	<b>6528.00</b>		<b>4764.41</b>	<b>4975.02</b>	<b>210.61</b>	<b>58.87</b>

## Glossary of abbreviations

Abbreviation	Expanded form
AA	Assessing Authority
AC	Assistant Commissioner
ACTO	Assistant Commercial Taxes Officer
ADM	Additional Director, Mines
AEO	Assistant Excise Officer
AME	Assistant Mining Engineer
ATN	Action Taken Note
BE	Budget Estimates
BL	Bulk Litre
BOR	Board of Revenue
BSF	Border Security Force
CCT	Commissioner of Commercial Taxes
CD	Compact Disc
CL	Country Liquor
CMVR	Central Motor Vehicles Rules, 1989
CST	Central Sales Tax
CTO	Commercial Taxes Officer
DC	Deputy Commissioner
DEO	District Excise Office
DGMS	Director General of Mines Safety
DLC	District Level Committee
DMG	Director, Mines and Geology, Rajasthan, Jaipur
DTO	District Transport Office
EC	Excise Commissioner
ENA	Extra Neutral Alcohol
EPS	Exclusive Privilege System
ERCC	Excess royalty collection contract
EVC	Excise Verification Certificate
GF&AR	General Financial and Accounts Rules
GOI	Government of India
IA Wing	Internal Audit Wing
IAR	Internal Audit Reports
IMFL	Indian Made Foreign Liquor
IR	Inspection Report
IT	Information Technology
ITC	Input Tax Credit
LPH	Lanced Poppy Head
LPL	London Proof Litre
MC Rules	Mineral Concession Rules, 1960
MCDR	Mineral Conservation and Development Rules, 1988

ME	Mining Engineer
MMDR Act	Mines and Minerals (Development and Regulation) Act, 1957
MT	Metric Ton
MV Act	Motor Vehicles Act, 1988
NIC	National Informatics Centre
NP	National Permit
NPS	National Permit System
PAC	Public Accounts Committee
PGCIL	Power Grid Corporation of India Limited
RC	Registration Certificate
RajSICO	Rajasthan Small Industries Corporation Limited
RCC	Royalty collection contract
RE	Revise estimate
RE Act	Rajasthan Excise Act, 1950
RF	Registration Fee
RIAA	Rajasthan Industrial Area Allotment
RIICO	Rajasthan State Industrial Development and Investment Corporation
RMMC Rules	Rajasthan Minor Minerals Concession Rules, 1986
RMV Rules	Rajasthan Motor Vehicles Rules, 1990
RMVT Act	Rajasthan Motor Vehicles Taxation Act, 1951
RMVT Rules	Rajasthan Motor Vehicles Taxation Rules, 1951
RNDPS Rules	Rajasthan Narcotic Drugs and Psychotropic Substances Rules, 1985
RRC Act	Rajasthan Rent Control Act
RS	Rectified Spirit
RSBCL	Rajasthan State Beverage Corporation Limited
RSGSM	Rajasthan State Ganganagar Sugar Mills
RSPCB	Rajasthan State Pollution Control Board
RSRTC	Rajasthan State Road Transport Corporation
RST	Rajasthan Sales Tax
RTA	Regional Transport Authority
RTO	Regional Transport Office
RTDC	Rajasthan Tourism Development Corporation
RVAT	Rajasthan Value Added Tax
SDO	Sub-Divisional Officer
SR	Sub-Registrar
STP	Short Term Permit
TC	Transport Commissioner
TINXSYS	Tax Information Exchange System
UDD	Urban Development Department
UT	Union Territories
VAT	Value Added Tax