

**Report of the
Comptroller and Auditor General of India
on
Revenue Sector
for the year ended 31 March 2017**



Government of Himachal Pradesh
Report No. 5 of the year 2017

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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2017 has been prepared for submission to the Governor of Himachal Pradesh under Article 151 of the Constitution of India.

The Report contains significant findings of audit of receipts and expenditure of major revenue earning departments under Revenue Sector conducted under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The instances mentioned in this Report are those which came to notice in the course of test audit during the period 2016-17 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports. Instances relating to the period subsequent to 2016-17 have also been included, wherever necessary.

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

Overview

OVERVIEW

This Report contains one Performance Audit and 25 paragraphs relating to non/short levy of VAT/CST, State excise, stamp duty and registration fee, passenger and goods tax and royalty with revenue implication of ₹269.46 crore.

General

The total revenue receipts of the Government for the year 2016-17 was ₹26,264.34 crore as compared to ₹23,440.48 crore during the previous year. Out of this, 33 *per cent* was raised through tax revenue (₹7,039.05 crore) and non-tax revenue (₹1,717.24 crore). The balance 67 *per cent* was received from the Government of India as State's share of divisible Union taxes (₹4,343.70 crore) and Grants-in-Aid (₹13,164.35 crore). There was an increase in Revenue Receipts over the previous year by ₹2,823.86 crore.

(Paragraph 1.1)

Test check of the records of 138 units of Sales Tax/Value Added Tax, State Excise, Motor Vehicles, Goods & Passengers Tax and Forest Receipts conducted during the year 2016-17 revealed under-assessment/short levy/loss of revenue aggregating ₹344.45 crore in 832 cases. During the year, the Departments concerned accepted under-assessment and other deficiencies of ₹7.32 crore in 290 cases out of which an amount of ₹4.31 crore was realised in 275 cases, ₹4.30 crore in 269 cases related to findings of previous years and ₹1.09 lakh in six cases related to the findings of year 2016-17.

(Paragraph 1.10)

II Taxes/VAT on Sales and Trade

Transaction audit

Excise and Taxation Department took up the computerisation of VAT and allied processes to improve the compliance of tax laws, automate the allied tax administration and interface with the TINXSYS in June 2010 involving financial outlay of ₹20.19 crore. The Department rolled out 23 modules including Web Portal between August 2011 and January 2015. However, the usage of backend modules was low in view of the long pendency of VAT assessments and processes were still being undertaken in manual form. Besides, Go-Live, signing of System Requirement Specification, User Requirement Specification, Software Design Document, Legacy data conversion and Final Acceptance Test were also pending. In view of Department's option to utilise 'Implementation Model-2' developed by GSTN on the introduction of GST from 1st July 2017, the expenditure of ₹20.19 crore on the setting up of the project remained unproductive failing to meet the project objectives.

(Paragraph 2.3)

The entry tax of ₹1.38 crore was levied against the leviable entry tax of ₹2.41 crore, resulting in short levy of entry tax of ₹1.03 crore.

(Paragraph 2.4)

The Assessing Authority during assessment of a dealer for the years 2008-09 and 2009-10 excluded income of ₹6.39 crore from the Gross Turnover resulting in loss of revenue of ₹25.52 lakh. Besides, interest was also leviable.

(Paragraph 2.5)

Loss of revenue of ₹7.68 crore to State Government due to under assessment/exclusion of income of ₹61.42 crore from Gross Turnover.

(Paragraph 2.6)

Loss of revenue of ₹3.17 crore due to non-deduction of works contract tax on Sub contract payments.

(Paragraph 2.7)

Inadmissible deduction of consumable purchases for works contract and non-levy of entry tax on interstate purchases, resulted in loss of revenue of ₹77.58 lakh.

(Paragraph 2.8)

Excess allowance of labour charges and deduction for petty contractors payments resulted in short levy of tax by ₹3.46 crore.

(Paragraph 2.9)

Assessing Authorities while finalising the assessments of the dealers assessed the taxable turnover at applicable tax rates but calculated output tax as ₹1.30 crore against the actual liability of ₹2.37 crore resulting in short levy of tax of ₹1.07 crore.

(Paragraph 2.10)

The Excise and Taxation Department did not levy entertainment duty on cable operators thereby forgoing revenue of at least ₹9.93 crore.

(Paragraph 2.11)

III State Excise

A Performance Audit on 'Working of Excise Department including working of distilleries brought out cases of loss of excise duty, short levy of license fee and non levy of additional fee etc. amounting to ₹132.46 crore. Some major findings are given below:

Allowance of wastage in beer production without any provision in Rules resulted in loss of excise duty of ₹2.44 crore.

(Paragraph 3.3.8)

Short allotment of liquor quota to 29 vends in one District vis-a-vis their potentiality resulted in short levy of license fee of ₹4.12 crore.

(Paragraph 3.3.10)

There was loss of license fee of ₹1.82 crore due to excess lifting of liquor quota by 73 vends during the year 2015-16.

(Paragraph 3.3.11)

The Department had recovered license fee of ₹47.09 crore instead of recoverable license fee of ₹57.10 crore, resulting in short recovery of license fee of ₹10.01 crore from nine licensees of two Districts.

(Paragraph 3.3.13)

The Department did not levy additional fee of ₹4.94 crore on short lifting of Minimum Guaranteed Quota by 358 vends of five Districts.

(Paragraph 3.3.14)

The Department did not levy excise duty of ₹18.29 crore on the production of Extra Neutral Alcohol by three distilleries.

(Paragraph 3.3.16)

The Department did not levy excise duty of ₹8.46 crore on export of beer by distillery of Sirmour District.

(Paragraph 3.3.17)

Transaction audit

The Department renewed different licenses without payment of requisite renewal fee resulting in short recovery of ₹1.45 crore.

(Paragraph 3.4)

Additional fee of ₹1.62 crore for short lifting of 4,86,054 proof liters of liquor by licensee of 532 vends was not levied. In addition, a penalty of ₹15.91 lakh was also leviable.

(Paragraph 3.5)

Interest amounting to ₹33.31 lakh on delayed payment of license fee was not demanded by the Department from the licensees of 109 vends resulting in non-recovery of interest to that extent.

(Paragraph 3.6)

License fee of ₹10.13 lakh was recoverable in respect of 149 vends due to non-accountal of unsold stock of preceding year.

(Paragraph 3.7)

IV Stamp Duty

Adoption of incorrect market rates for built up structure of residential units resulted in short realisation of Stamp Duty and Registration Fee of ₹92.03 lakh.

(Paragraph 4.3)

Incorrect valuation on the basis of affidavits regarding distance of the land from road filed by purchasers resulted in short realisation of Stamp Duty and Registration Fee of ₹37.76 lakh. In addition, penalty of ₹18.88 lakh was also leviable.

(Paragraph 4.4)

The exemption of 50 *per cent* of stamp duty on sale deeds of industrial units without verification of setting up of new industrial enterprises resulted in short levy of Stamp duty and Registration fee of ₹60.68 lakh.

(Paragraph 4.5)

Application of incorrect rates of Stamp Duty in sale deeds resulted in short realization of Stamp Duty of ₹28.00 lakh in 314 cases.

(Paragraph 4.6)

V Taxes on Vehicles, Goods and Passengers

Token tax of ₹5.66 crore in respect of 12,365 vehicles for the years 2013-14 to 2015-16 was neither demanded by the Department nor paid by the vehicle owners.

(Paragraph 5.3)

Special Road Tax amounting to ₹22.39 crore was not recovered from Himachal Road Transport Corporation and private stage carriages.

(Paragraph 5.4)

The passenger and goods tax amounting to ₹1.10 crore was neither paid by the owners of 1,911 commercial vehicles nor demanded by the Department for the period 2014-15 to 2015-16.

(Paragraph 5.5)

Due to lack of co-ordination between the concerned RLAs/RTOs and AETCs, the owners of the 2,961 commercial vehicles did not register their vehicles with the Excise and Taxation Department which resulted in non-realisation of Passenger and Goods tax amounting to ₹1.13 crore.

(Paragraph 5.6)

Additional Goods tax of ₹39.37 crore was neither paid by three cement companies who had transported limestone and shale from mining areas to cement plants for manufacturing of cement and clinker nor was it demanded by the Department.

(Paragraph 5.7)

VI Forest Receipts

Department failed to recover the withheld amount of royalty of ₹31.12 crore from Himachal Pradesh State Forest Development Corporation Limited.

(Paragraph 6.3)

Failure of the Department to demand differential amount of resin royalty for resin season 2014 resulted in loss of revenue of ₹2.48 crore.

(Paragraph 6.4)

Interest of ₹70.47 lakh on short payment of royalty of ₹6.52 crore, from November 2015 to June 2016, was not levied by the Department.

(Paragraph 6.5)

Chapter-I
General

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Himachal Pradesh during the year 2016-17, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-Aid received from the Government of India during the year and the corresponding figures for the preceding four years are depicted below.

Table-1.1 Trend of revenue receipts

₹ in crore						
Sr. No.	Particular	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenue raised by the State Government					
	Tax revenue	4,626.17	5,120.91	5,940.16	6,695.81	7,039.05
	Non-tax revenue	1,376.88	1,784.53	2,081.45	1,837.15	1,717.24
	Total	6,003.05	6,905.44	8,021.61	8,532.96	8,756.29
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	2,282.02	2,491.53	2,644.17	3,611.17	4,343.70 ¹
	Grants-in-Aid	7,313.07	6,314.11	7,177.67	11,296.35	13,164.35
	Total	9,595.09	8,805.64	9,821.84	14,907.52	17,508.05
3.	Total revenue receipts of the State Government (1 and 2)	15,598.14	15,711.08	17,843.45	23,440.48	26,264.34
4.	Percentage of 1 to 3	38	44	45	36	33

It is observed that during the year 2016-17, the revenue raised by the State Government (₹8,756.29 crore) was 33 per cent of the total revenue receipts. The balance 67 per cent of the receipts during 2016-17 was from the Government of India as share of net proceeds of divisible union taxes and Grants-in-Aid. There was an increase in Revenue receipts over previous year by ₹2,823.86 crore.

1.1.2 The details of the tax revenue raised *vis-a-vis* budget estimates during the period 2012-13 to 2016-17 are depicted below.

¹ For details, see Statement No. 14 'Detailed statement of revenue and capital receipt by minor Heads' in Finance Accounts of the Government of Himachal Pradesh for the year 2016-17 under the Major Receipts Head 0020-Corporation tax, 0021-Taxes on income other than Corporation tax, 0032-Taxes on wealth, 0037-Customs, 0038-Union excise duties, 0044-Service tax and 0045-Other Taxes and Duties on Commodities. Receipts under sub Head 901-Share of net proceeds assigned to State booked under A-tax revenue have been excluded from revenue raised by the State Government and included in the State's share of divisible Union taxes.

Table-1.2 Details of Tax Revenue raised

₹ in crore												
Sr. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over actual of 2015-16
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Taxes on sales and trade	3,161.57	2,728.22	3,232.90	3,141.10	3,195.62	3,660.57	3,937.01	3,992.99	4,715.67	4,381.91	10
2.	State excise	800.14	809.87	949.46	951.96	940.74	1,044.14	1,137.73	1,131.22	1,274.26	1,307.87	16
3.	Motor vehicles tax	215.39	196.13	246.88	207.81	214.14	220.10	227.15	317.05	305.73	279.58	(-) 12
4.	Stamp Duty	159.05	172.61	201.22	187.50	209.11	190.58	215.40	205.52	247.77	209.16	2
5.	Taxes and duties on electricity	217.03	262.63	248.77	191.36	262.01	332.82	308.45	551.06	339.30	371.67	(-) 33
6.	Land revenue	4.01	23.60	4.00	9.98	15.12	16.88	15.66	7.43	18.01	7.64	3
7.	Others	500.23	433.11	489.76	431.20	386.56	475.07	499.39	490.54	568.64	481.22 ²	(-) 2
	Total	5,057.42	4,626.17	5,372.99	5,120.91	5,223.3	5,940.16	6,340.79	6,695.81	7,469.38	7,039.05	5

Source: Finance accounts

It is observed that there is increase in tax revenue of State from ₹4,626.17 crore in 2012-13 to ₹7,039.05 crore in 2016-17. Taxes on Sale & Trade (62 per cent) and State Excise (19 per cent) were main contributor to State taxes. There is a fall in Land revenue from ₹23.60 crore to ₹7.64 crore in last five years. The respective Departments reported the following reasons for variation during the year:

Taxes on sales and trade: The increase was due to better tax administration, recovery of old arrears and enhancement in tax rate of entry tax on electronic energy meters. Besides, there was levy of entry tax on e-commerce since February 2017.

State Excise: The increase was due to 10 per cent increase in annual license fee/ renewal fee and all fixed fees and resumption of auctioning of vends wherein competitive bidders quoted higher prices as compared to base price.

The details of the non-tax revenue raised during the period 2012-13 to 2016-17 are depicted below.

² Figures under Major Receipts Heads 0042-Taxes on Goods and Passengers: ₹121.37 crore and 0045-Other Taxes and Duties on Commodities and Services: ₹359.85 crore

Table-1.3 Details of Non-tax revenue raised

₹ in crore												
Sr. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over actual of 2015-16
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
		1.	Power	1,243.00	637.15	1,470.25	696.29	605.00	1,121.51	650.00	923.68	
2.	Interest receipts	125.56	69.90	176.44	118.61	69.96	100.93	70.93	93.84	78.25	145.56	55
3.	Non-ferrous, mining and metallurgical Industries	137.94	147.90	151.10	114.08	140.00	161.52	140.00	155.08	168.00	176.22	14
4.	Forestry and wild life	75.31	63.90	86.45	357.83	73.16	115.78	73.16	34.47	87.79	18.50	(-) 46
5.	Public works	38.89	39.72	42.59	34.75	43.44	34.13	45.97	43.00	50.57	54.60	27
6.	Other administrative services	33.39	45.71	35.09	25.95	35.79	35.57	36.74	32.81	40.41	42.63	30
7.	Police	21.03	20.63	29.57	34.65	38.16	39.83	47.78	48.53	56.47	50.50	4
8.	Medical and public health	7.13	11.21	8.59	5.04	11.86	3.35	8.67	5.72	9.54	10.71	87
9.	Co-operation	3.46	3.24	4.48	15.30	3.66	8.67	2.90	14.77	2.90	12.51	(-) 15
10.	Miscellaneous general services	1.87	8.94	1.99	5.65	2.12	3.41	2.18	19.37	2.40	2.35	(-) 88
11.	Major and medium irrigation	0.81	0.33	0.81	0.37	0.81	0.17	0.89	0.21	0.98	0.39	86
12.	Other Non-tax receipts	314.21	328.25	385.18	376.01	364.83	456.58	427.96	465.67	470.80	552.34 ³	19
Total		2,002.60	1,376.88	2,392.64	1,784.53	1,388.79	2,081.45	1,507.18	1,837.15	1,668.11	1,717.24	(-) 7

Source: Finance accounts

It is observed that non-tax revenue has fallen from ₹1,837.15 crore in 2015-16 to ₹1,717.24 crore in 2016-17. The respective Departments reported the following reasons for variation during the year:

Power: During the year 2014-15, revenue increased due to deposit of arrears of free electricity in earlier years, lesser supply of free power and more sales of electricity to other States while decrease in revenue was due to declining sale price of power from ₹2.95 in 2015-16 to ₹2.66 per unit in 2016-17.

Non-ferrous, mining and metallurgical Industries: The increase was due to enhancement of royalty rates of major and minor minerals and more extraction of minerals due to excess consumption/utilization. Besides, different lessees had started mining activities after getting environmental clearance.

Police: The increase was due to payment of fines and pending recoveries and receipts of licence fee of vehicle permits issued for plying on restricted roads.

Medical and Public Health: The increase was due to deposit of revenue receipts in the Government account by Director Health Safety Regulation and receipts from manufacture of medicines and miscellaneous receipts.

³ The details given in Annexure-I.

Co-operation: The decrease was due to lesser grant received from the National Co-operative Development Corporation, New Delhi, for the execution of Integrated Co-operative Development Projects in the State.

The other Departments did not intimate the reasons for variation of receipts with that of previous year (December 2017).

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 on some Principal Heads of revenue amounted to ₹3,554.30 crore of which ₹170.67 crore was outstanding for more than five years as depicted below.

Table-1.4 Arrears of revenue

₹ in crore				
Sr. No.	Head of revenue	Total Amount outstanding as on 31 March 2017	Amount outstanding for more than 5 years as on 31 March 2017	Replies of the Departments
1.	Taxes on Sales and Trade	2,984.08	119.43	Arrears for ₹2,560.40 crore had been referred for recovery as arrears of land revenue, ₹88.95 crore were stayed by the Courts, ₹16.56 crore was recoverable from Government Departments/ undertakings/ Boards, ₹24.11 crore was proposed to be written off, ₹55.47 crore was pending under appeal and ₹238.59 crore recoverable form the others.
2.	Water supply, Sanitation, Housing and Minor Irrigation	288.27	0.0	Arrears of ₹277.10 crore pertains to supply of water to Municipal Corporations/Committees and Notified Area Committees, ₹8.75 crore and ₹77 lakh to Non-Government Bodies and Government Departments respectively and ₹1.65 crore to Minor Irrigation.
3.	State Excise	86.40	13.22	Arrears for ₹44.70 crore had been referred for recovery as arrears of land revenue, ₹4.53 crore were stayed by the Courts, ₹1.04 crore was recoverable from Government Departments/undertakings/Boards, ₹22.00 lakh was proposed to be written off and ₹35.91 crore recoverable form the bidders/licensees/others.
4.	Forestry and Wild Life	68.09	14.89	Arrears of ₹2.78 crore pertain to contractors & cases referred to Collectors for recovery under ALR, out of these some cases were under trial in the Court of Law. ₹65.05 crore recoverable from the HPSFDC Ltd. and ₹25.80 lakh pertains to other Government Department.
5.	Other Taxes and Duties on Commodities and Services	65.75	12.71	Arrears of ₹39.26 crore had been referred for recovery as arrears of land revenue, ₹9.43 crore were stayed by the Courts, ₹5.65 crore was pending under appeal and ₹11.41 crore recoverable form the others.
6.	Police	39.37	0.30	Arrears accumulated from the years 1971-72. Out of this ₹28.96 lakh related to JP Cement plant Ltd., ₹2.90 lakh related to various Courts, ₹5.57 crore related to BBMB and remaining amount ₹33.48 crore related to other Departments/institutions.
7.	Village and Small Industries	8.48	2.41	Arrears accumulated from the year 1989-90. Arrears pertain to premium of plots (Industrial areas) etc.
8.	Taxes on Goods and Passengers	7.06	6.29	From the total arrears, ₹3.37 crore had been referred for recovery as arrears of land revenue, ₹12.00 lakh were stayed by the Courts, ₹11.17 lakh was recoverable from Government Departments/undertakings/Boards, ₹7.00 lakh was proposed to be written off and ₹3.39 crore recoverable form the others.
9.	Printing and Stationery	5.53	0.59	Arrears accumulated from the year 1999. Arrears of ₹1.85 crore from Corporations/Boards/undertakings, ₹3.56 crore from Government Departments and ₹12.41 lakh from NRHM were recoverable.
10.	Non-ferrous, Mining and Metallurgical Industries	0.79	0.57	Arrears accumulated from the year 1970-71. Arrears pertain to mining offices and DDO (Headquarter) Geological Wing Directorate of industries on account of recovery of royalty/drilling charges etc.

11.	Public Works	0.24	0.17	Arrears pertain to residential and non-residential buildings.
12.	Industries	0.22	0.09	Arrears accumulated from the year 1980-81. Arrears pertain to rent of sheds (Industrial Estate), rent of Government accommodation/receipt of sale of Mulberry plants etc.
13.	Co-operation	0.02	0.0	Arrears pertained to Audit Fee recoverable.
Total		3,554.30	170.67	

Source: Departmental figures

1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Excise Department in respect of sales tax, motor spirit tax, luxury tax and tax on works contracts are depicted below.

Table-1.5 Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2016-17	Total assessments due	Cases disposed of during 2016-17	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Taxes on sales and trade	1,478,12	70,893	2,18,705	39,397	1,79,308	18
Luxury tax	3,413	2,541	5,954	2,401	3,553	40
Tax on works contracts	2,150	420	2,570	1,300	1,270	50
Motor spirit tax	27	28	55	27	28	49
Total	1,53,402	73,882	2,27,284	43,125	1,84,159	19

Source: Departmental figures

The disposal of assessment cases in respect of Department of Sales and Taxes was very low.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Excise and Taxation Department, cases finalised and the demands for additional tax raised as reported by the Department are depicted below.

Table-1.6 Evasion of Tax

Sr. No.	Head of revenue	Cases pending as on 1 st April 2016	Cases detected during 2016-17	Total	Number of cases in which assessment/investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalization as on 31 March 2017
					Number of cases	Amount (₹ in crore)	
1.	Taxes on Sales and Trade	83	13,452	13,535	13,379	55.80	156
2.	State Excise	33	359	392	330	1.59	62
3.	Passengers and Goods tax	16	11,424	11,440	11,115	4.97	325
4.	Other Taxes and Duties on Commodities and Services	9	1,853	1,862	1,765	5.25	97
Total		141	27,088	27,229	26,589	67.61	640

Source: Departmental figures

It is observed that out of total 27,229 cases, the Department had completed the assessment in 26,588 cases and raised an additional demand of ₹67.61 crore. Number of pending cases have increased from 141 to 640 during the year.

1.5 Refund cases

The refund cases pending at the beginning of the year 2016-17, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2016-17 are depicted below.

Table 1.7 Details of refund cases

Sr. No.	Particulars	Sales tax/VAT		State Excise	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
1.	Claims outstanding at the beginning of the year	49	19.65	18	0.33
2.	Claims received during the year	187	28.27	18	0.62
3.	Refund made during the year	194	26.23	17	0.42
4.	Balance outstanding at the end of year	42	21.69	19	0.53

Source: Departmental figures

The number of outstanding cases at the end of year has decreased in Sales Tax/VAT and slightly increased in State Excise as compared to cases outstanding at the beginning of the year.

1.6 Response of the Government/Department towards audit

The Principal Accountant General (Audit), Himachal Pradesh (PAG), conducts periodical inspection of Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot which are issued to the Heads of the offices inspected with copies to the next higher authorities for taking prompt corrective action. The Heads of the Offices are required to comply with the observations contained in the IRs within four weeks from the date of receipt of the IRs. Serious financial irregularities are reported to the Heads of the Department and the Government.

Inspection reports issued up to December 2016 disclosed that 7,764 paragraphs involving ₹1,817.56 crore relating to 2,582 IRs remained outstanding at the end of June 2017 as mentioned below in **Table 1.8** along with the corresponding figures for the preceding two years.

Table-1.8 Details of pending Inspection Reports

	June 2015	June 2016	June 2017
Number of IRs pending for settlement	2,509	2,549	2,582
Number of outstanding audit observations	7,150	7,512	7,764
Amount of revenue involved (₹ in crore)	1,099.13	1,512.30	1,817.56

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2017 and the amounts involved are depicted below.

Table-1.9 Department-wise details of pending Inspection Reports

Sr. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise & Taxation	Taxes/VAT on sales and trade	132	945	364.52
		State Excise Duty	59	267	217.55
		Passenger & Goods Tax	182	375	294.36
		Other Taxes & Duties on Commodities and Services	109	141	7.14
		Entertainment & Luxury tax etc.	54	107	10.01
2.	Revenue	Land Revenue	228	452	190.41
		Stamp and Registration Fees	605	1,270	56.96
3.	Transport	Taxes on Motor Vehicles	669	2,548	277.76
4.	Forest and Environment	Forest Receipts	544	1,659	398.85
Total			2,582	7,764	1,817.56

During 2016-17, audit did not receive even the first reply in respect of 120 IRs out of 138 IRs issued during the year, from the Heads of the Offices within the stipulated time of four weeks. The large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of Offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the audit in the IRs. Lack of executive action on audit observations weakens accountability and raises the risk of avoidable loss of revenue. The continuous increase in the number of pending audit paragraphs merits the attention of the Government to ensure effective mechanism to regularly monitor and review the compliance and settlement of audit observations.

1.6.2 Departmental audit committee meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the paragraphs included in the IRs. The details of audit committee meetings held during the year 2016-17 and the paragraphs settled are depicted below.

Table-1.10 Details of Departmental Audit Committee meetings

Sr. No.	Department	Number of meetings held	Number of paragraphs outstanding	Number of paragraphs settled	Amount (₹ in crore)
1.	Revenue Department	1	1,320	55	0.11
2.	State Excise Department	1	2,049	245	1.10
3.	Transport Department	1	2,594	74	1.42
4.	Forest Department	1	1,532	51	3.63
Total		4	7,495	425	6.26

Out of 7,495, outstanding paragraphs, 425 paras (5.67 per cent) involving amount of ₹6.26 crore were settled in four Audit Committee Meetings in respect of Revenue, State Excise, Transport and Forest Departments held during the year 2016-17.

It is recommended that Government should ensure holding of meetings of the Audit Committee at regular intervals in all the Departments.

1.6.3 Response of the Departments to the draft audit paragraphs

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

One Performance Audit and twenty five draft paragraphs, sent to the Principal Secretaries/Secretaries of the respective Departments between June and July 2017. The Principal Secretaries/Secretaries of the Departments had not furnished replies to six draft paragraphs and the same have been included in this Report without the response of the Government. However, the replies of the Department, wherever received, have been appropriately incorporated in the Report.

1.6.4 Follow up on the Audit Reports-summarised position

The Public Accounts Committee notified in December 2002 that after the presentation of the Audit Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and action taken notes thereon should be submitted by the Government within three months of tabling the Report for consideration of the Committee. However, action taken notes on audit paragraphs of the Reports were delayed. Total 127 paragraphs (including performance audits) included in the Audit Reports of the Comptroller and Auditor General of India of the Government of Himachal Pradesh for the years ended 31 March 2012, 2013, 2014 and 2015 on the Revenue Sector were placed before the State Legislature Assembly between 9th April 2013 and 07th April 2016. Action taken notes from the concerned Departments on these paragraphs were received late with average delay of 12, 14, 10 and seven months of each of these Audit Reports, respectively. Action taken notes in respect of nine paragraphs from Revenue (04 paragraphs) and Forest (05 paragraphs) Departments had not been received (August 2017) for the Audit Report for the year ended 31 March 2015.

The PAC discussed 18 selected paragraphs pertaining to the Audit Reports for the years from 2008-09 to 2012-13. The recommendations are awaited on discussed paragraphs in respect of Departments as depicted below.

Table-1.11 Details of paragraphs discussed in the PAC

Year	Name of the Departments	Number of paragraphs
2008-09	Transport and Industries	2
2009-10	Transport	4
2010-11	Transport and Industries	5
2011-12	Transport and Industries	4
2012-13	Transport and Industries	3
Total		18

1.7 Analysis of the mechanism for dealing with the issue raised by Audit

To analyze the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and performance audits included in the Audit Reports of the last 10 years for Excise and Taxation Department under Major Receipt Head '0039-State Excise Duty' is evaluated and included in this Audit Report.

The succeeding paragraphs 1.7.1 to 1.7.3 discuss the performance of the Excise and Taxation Department in respect of State Excise duties under Major Receipt Head '0039-State Excise Duty' and cases noticed in the course of local audit during the last 10 years upto 2016-17 and also the cases included in the Audit Reports for the years 2007-08 to 2015-16.

1.7.1 Position of Inspection Reports

The summarized position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2017, relating to state excise are depicted below.

Table-1.12 Position of Inspection Reports

Year	₹ in crore											
	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
2007-08	69	170	12.32	14	59	2.23	2	16	0.41	81	213	14.14
2008-09	81	213	14.14	6	74	27.47	2	30	1.35	85	257	40.26
2009-10	85	257	40.26	15	95	6.79	21	75	13.48	79	277	33.57
2010-11	79	277	33.57	9	64	3.48	8	149	2.14	80	192	34.91
2011-12	80	192	34.91	8	55	1.41	9	46	24.14	79	201	12.18
2012-13	79	201	12.18	7	48	4.24	15	67	6.29	71	182	10.13
2013-14	71	182	10.13	7	55	12.13	16	36	5.08	62	201	17.18
2014-15	62	201	17.18	10	76	24.23	15	92	6.14	57	185	35.27
2015-16	57	185	35.27	9	73	23.17	10	71	8.18	56	187	50.26
2016-17	56	187	50.26	10	85	168.32	1	5	1.03	65	267	217.55
Total	719	2065	260.22	95	684	273.47	99	587	68.24	715	2162	465.45

It is observed that against 69 IRs with 170 paragraphs outstanding as on start of 2007-08, the number of outstanding IRs declined to 65 with 267 paragraphs at the end of 2016-17. The corresponding money value pointed out in IRs have increased from ₹12.32 crore to ₹217.55 crore.

1.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Excise and Taxation Department and the amount recovered are depicted below.

Table-1.13 Recovery of accepted cases

₹ 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	Cumulative position of recovery of accepted cases as of 31 March 2017
1	2	3	4	5	6	7
2006-07	1	0.86	0	0.00	0.00	0.31
2007-08	3	1.27	2	1.25	0.48	1.14
2008-09	3	10.65	3	6.29	0.17	2.58
2009-10	4	1.47	2	0.07	0.03	0.78
2010-11	4	0.39	0	0.00	0.00	0.08
2011-12	3	0.22	1	0.07	0.00	0.11
2012-13	1	3.57	1	2.54	0.32	0.63
2013-14	7	4.28	3	2.97	1.89	2.98
2014-15	6	9.01	6	9.01	1.45	1.68
2015-16	8	16.68	6	16.05	2.58	2.58
Total	40	48.40	24	38.25	6.92	12.87

It is observed that the progress of recovery even in accepted cases was very slow during the last 10 years.

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

Draft report on Performance Audit conducted by the PAG are forwarded to the concerned Department/Government with a request to furnish their replies. These Performance Audit are also discussed in an exit conference and the Department/Government's views are included while finalizing the Performance Audit for the Audit Report. One Performance Audit on the Excise and Taxation Department under Receipt Head '0039-State Excise Duty' conducted and featured in the Audit Report for the year 2008-09 is depicted below.

Table-1.14 Action taken on the recommendations

Sr. No.	Year of Audit Report	Title of the performance audit	Number of recommendations made in PA	Remarks
1.	2008-09	'Collection of duties and fees on working of distilleries in Himachal Pradesh'	Four recommendations	The Department accepted and admitted all the recommendations and stated that efforts were being made for their implementation.

1.8 Internal Audit

The Departments have an Internal Audit Cell (IAC) under the charge of the Assistant Controller (F&A). This cell was to conduct test check of cases of assessment as per the approved action plan and in accordance with the criteria decided by the Steering Committee to ensure adherence to the provisions of the Acts and Rules as well as Departmental instructions issued from time to time.

During the year 2016-17, out of 11 units planned for audit, Internal Audit Cell audited five units (45 per cent) as depicted below

Table-1.15 Internal Audit

Name of the Department	Total auditable unit	No. of units planned for audit	No. of units audited	Shortfall
Excise and Taxation	13	11	5	6
Total	13	11	5	6

The irregularities discussed in the paragraphs of Chapters II to VI are indicators of inadequate internal control mechanism as the irregularities pointed out in the Audit Report were not detected by the internal audit parties.

1.9 Audit planning

The auditable entities under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. An annual audit plan is prepared on the basis of risk analysis which *inter-alia* include issues in government revenue and tax administration derived from the budget speech, the white paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee and statistical analysis of revenue earnings during the past five years, factors of the tax administration and audit coverage.

During the year 2016-17, there were 350 auditable units of which 138 units⁴ were planned and audited.

Besides, the compliance audit mentioned above, one Performance Audit on '*Working of State Excise Department including working of distilleries*' was also conducted to examine the efficacy of the Departments concerned in realisation of revenue receipts.

1.10 Results of audit

Test check of the records of 138 units of Sales Tax/Value Added Tax, State Excise, Motor Vehicles, Goods & Passengers Tax and Forest Receipts conducted during the year 2016-17 revealed under-assessment/short levy/loss of revenue aggregating ₹344.45 crore in 832 cases. During the year, the Departments concerned accepted under-assessment and other deficiencies of ₹7.32 crore in 290 cases out of which an amount of ₹4.31 crore was realised in 275 cases, of which ₹4.30 crore in 269 cases relate to findings of previous years and ₹1.09 lakh in six cases relate to the findings of year 2016-17.

⁴ These units included 20 units of Luxury tax, Entertainment tax and Multi-Purpose Barriers.

1.11 Coverage of this Report

This Report contains a Performance Audit and 25 paragraphs with revenue implication of ₹269.46 crore. The Departments/Government have accepted 11 audit observations involving ₹8.83 crore of which ₹1.82 crore had been recovered in 11 cases.

Chapter-II
Taxes/VAT on Sales and Trade

CHAPTER-II

TAXES/VAT ON SALES AND TRADE

2.1 Tax administration

Sales Tax/Value Added Tax is administered at the Government level by the Additional Chief Secretary (Excise). The Excise & Taxation Commissioner (ETC) is the Head of the Excise and Taxation Department and he is assisted by two Additional ETCs, one Joint ETC, six Deputy ETCs, 12 Assistant ETCs and 69 Excise & Taxation Officers (ETOs). In addition, there are Excise and Taxation Inspectors and other allied staff for administering the relevant Tax Laws and Rules.

2.2 Results of Audit

During 2016-17, test check of the records of 34 units relating to VAT/Sales tax assessments Entertainment Tax, Multipurpose Barriers, Luxury Tax and other records revealed under-assessment of tax and other irregularities involving ₹63.48 crore in 290 cases which fall under the following categories as depicted below.

Table-2.1 Results of Audit

Sr. No.	Categories	Number of cases	₹ in crore
			Amount
1.	Under-assessment of tax	19	18.87
2.	Acceptance of defective statutory C&F forms	26	3.69
3.	Evasion of tax due to suppression of sales/purchases	41	15.34
4.	Irregular/incorrect/excess allowance of ITC	59	5.16
5.	Application of incorrect rate of tax	26	8.36
6.	Other irregularities	72	2.03
Total		243	53.45
Others Tax and Non-Tax			
1.	Entertainment Tax	19	9.20
2.	Multipurpose Barriers	20	0.83
3.	Luxury Tax	8	
Total		47	10.03
Grand Total		290	63.48

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹1.42 crore in 74 cases out of which an amount of ₹63.49 lakh was realised in 59 cases related to earlier years.

Significant cases involving ₹27.37 crore are discussed in the following paragraphs.

2.3 Audit on 'Implementation of HPVAT-IT Project (HIMTAS)'

Excise and Taxation Department took up the computerisation of VAT and allied processes to improve the compliance of tax laws, automate the allied tax administration and interface with the TINXSYS in June 2010 involving financial outlay of ₹20.19 crore. The Department rolled out 23 modules including Web Portal between August 2011 and January 2015. However, the usage of backend modules was low in view of the long pendency of VAT assessments and processes were still undertaken in manual form. Besides, Go-Live, signing of SRS, URS, SDD, Legacy data conversion and Final Acceptance Test were also pending. In view of Department's option to utilise 'Implementation Model-2' developed by GSTN on the introduction of GST from 1st July 2017, the expenditure of ₹20.19 crore on the setting up of the project remained unproductive failing to meet the project objectives.

2.3.1 Introduction

Sales tax/VAT on sales and trade is a major source of revenue for the State, which is collected by the Excise and Taxation Department (ETD). The Government of Himachal Pradesh implemented the Himachal Pradesh Value Added Tax Act, 2005 with effect from April 1st, 2005. Principal Secretary (Excise and Taxation) is the administrative head of the Department at the Government Level. The Excise and Taxation Commissioner (ETC) is the head of the Department (HOD) who is empowered with the work of superintendence and administration and is assisted by the two additional ETCs. The revenue collected under Revenue Head 'Taxes/VAT on Sales and Trade-0040' during the period 2013-14 to 2015-16 is as follows:

Table-2.2 Details of VAT and Total Tax Receipts

Year	VAT Receipt	Total Tax Receipt	₹ in crore
			VAT percentage of total tax receipts
2013-14	3,141.10	5,120.91	61
2014-15	3,660.57	5,940.16	62
2015-16	3,992.99	6,695.81	60

The Government of India through Empowered Committee (EC) of State Finance Ministers started (June 2010) the computerisation of VAT and allied processes with the aim to improve compliance of tax laws in the State, implementation of a comprehensive IT System to automate the allied tax administration processes, interface with TINXSYS, migration of legacy electronic data, digitisation, porting of paper documents to the new system and building robust MIS tools etc. Himachal Pradesh Tax Administration System (HIMTAS) is a web based internet application as detailed in **Annexure-II**.

The Department opted (December 2014) for 'Implementation Model 2' i.e. GSTN will be undertaking development of backend module for using backend

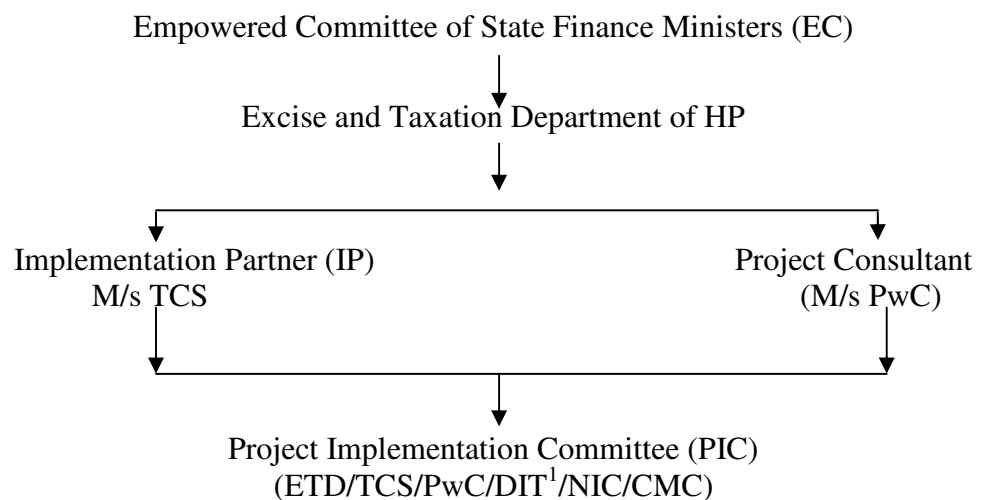
Services (assessment, audit, refund, recovery etc.) of GSTN consequent upon the rolling out of Goods and Service Tax (GST). Further, VAT has been subsumed in GST implemented with effect from July 1st 2017.

2.3.2 Initiation of HPVAT-IT Project

M/s PricewaterhouseCoopers (PwC) was selected (June 2006) by the EC as the project management consultants for defining infrastructure requirements, selection of implementation Partner (IP), monitor installation and commissioning of the hardware and software, review of application developed and monitoring of services of IP. The Project Consultant was also responsible for report of testing of modules and Web Portal for complete functionality, quarterly Service Level Agreement (SLA) monitoring as per the identified measurable parameters for a period of twenty-four months after project rollout.

The Request for Proposal (RFP) for computerization of VAT was floated in 2006. However, the contract agreements viz. Master Services Agreement (MSA) and Service Level Agreement (SLA) were signed between the Authorised representatives of the EC, ETD and Implementation Partner (M/s TCS), on 7th June 2010. The IP is responsible for delivery and installation of requisite hardware at all office locations, development and customization of VAT application and web portal according to the needs of the Department, legacy data digitisation and operations and maintenance of Data Centre for a period of five years. The Project Implementation Committee (PIC) comprising of members from the Department, Project Consultant, Implementation Partner, Department of Information Technology (DIT), NIC and CMC was set up for review of progress of the Project from time to time, whose minutes of meetings held during March 2011 to November 2016 were scrutinised in audit.

Structure for Implementation of HP VAT IT Project



¹ Department of Information Technology, Government of Himachal Pradesh

2.3.3 Modules under HIMTAS application

The HP VAT-IT Project was meant for computerisation of VAT Act and allied processes with a view to improve the compliance of tax law in the State but additional modules in respect of different revenue heads operated by the Department were also rolled out as part of the Project. The Department rolled out 23 modules including Web Portal under the Project between August 2011 and January 2015. Out of 23 modules, 14 modules pertained to taxes subsumed in GST. Only nine modules, which pertain to taxes not subsumed in GST, are usable as depicted below:

Table-2.3 Details of Modules under HIMTAS

Taxes Subsumed under GST			Taxes not subsumed under GST		Miscs.
VAT/CST	PGT	Luxury Tax	Excise	M&TP ²	Other Modules
1	2	3	4	5	6
<ul style="list-style-type: none"> • Registration • Returns & Payment • Assessment • Refund • Recovery • Appeals & Revision • Enforcement • Penalty 	<ul style="list-style-type: none"> • Registration • Returns & Payment • CGCR³ registration • CGCR Returns & Payments 	<ul style="list-style-type: none"> • Registration • Returns & Payments 	<ul style="list-style-type: none"> • Licenses • Removal of goods • Excise Statement 	<ul style="list-style-type: none"> • M&TP License • M&TP removal of goods • M&TP Return & Payments 	<ul style="list-style-type: none"> • Check post • TINXSYS • SFSC
8 modules	4 modules	2 modules	3 modules	3 modules	3 modules

2.3.3.1 VAT/CST/PGT/Luxury tax modules

The Department rolled out eight modules of VAT/CST out of which except for Registration and Returns/Payment modules remaining modules involving assessment and other processes thereafter were not in use and operations were carried out in offline mode due to non-clearance of arrears of assessments of pre-computerisation period. Similarly, processes of PGT and Luxury tax modules were also being carried out manually.

On this being pointed out, the Department replied (October 2017) that application of back office was low due to old pendency of assessments. Further assessment work was slow due to shortage of staff. The reply is not acceptable as Department did not take initiative to streamline the assessments so as to achieve benefits of automation and most of the backend operations were still being undertaken manually. Moreover, as these taxes are being subsumed in GST with effect from July 1st 2017, these modules have lost their relevance almost without being put to any use.

² Medical and Toilet Preparation

³ Certain Goods carried by Roads

2.3.3.2 Excise Modules

Excise Module was, made live in pilot site of Shimla on application as well as Portal in October 2013. The Department while acknowledging the slow progress made under Excise Module, asked the IP to roll out the same to Baddi and Kangra. PIC observed (November 2016) that retailer's data of Kangra District was incomplete. It was decided to have a comprehensive data of total licensees of retailers in the system. The Department also admitted that all Excise Modules are ready but not fully utilised. PIC directed that all licenses will be applied online through Web Portal from 1st December 2016 and suitable directions be issued to field authorities.

Audit observed that excise activities like application for vend licenses, renewal of licenses of distilleries/bottling plants, issue of permits against minimum guaranteed quota (MGQ) and monitoring of lifting against MGQ were undertaken on manual mode so far.

2.3.3.3 Other modules

Similarly, modules in respect of Passenger and Goods Tax, Medicinal and Toilet Preparations Act, 1955, Luxury Tax, Check Post, TINXSYS and SFSC were also not in use and operations/data base were maintained in offline mode. The master data of registration under different Acts was not available in respective modules and assessments were made on offline mode. Incidentally, most of these modules are not relevant now in view of submergence of these taxes under GST since 1st July 2017. Besides, the leads/mismatch generated from TINXSYS module or other VAT modules were not being probed as pointed out in under the compliance irregularities.

2.3.3.4 Complaint Module

The Complaints Module did not figure in the list of modules rolled out under the project, but the PIC meeting observed (August 2015) that usage of Complaints module was low. The Department directed for apprising the monitoring of the complaints by the concerned officer. It was also observed by PIC that performance of SMS gateway used for sending and receiving the messages was not good and dealers were losing confidence in the feature. The Department neither took steps to improve the performance of SMS Gateway nor put in designated officer/staff for popularization/monitoring of complaints thereby neglecting an important area for the successful implementation of the Project. Audit further observed that complain module/its linkage with other modules was not available on Departmental website and as such, an important ingredient for seeking inputs from stakeholders was missing in project.

2.3.4 Financial Status of VAT-IT Project

The total cost of Project inclusive of O&M cost of five years up to 31 March 2018 as per MSA was ₹20.19 crore as per details given below. The various components of Scope of Work under MSA are detailed in **Annexure-III**.

Table-2.4 Summary of Costs

Payment Head Description	Amount in ₹
One time cost of VAT Application	2,22,22,098
Web Portal Development Cost	19,79,796
Total Hardware Cost	7,64,36,409
Site Preparation Cost	1,40,47,255
Operation & Maintenance Cost	8,52,83,001
Cost of data digitisation	19,20,790
Total	20,18,89,349

On being asked about the status of funds released to the IP and Project Consultant, the Department informed that the EC of State Finance Ministers has been making payments directly and as such the same was not provided to audit.

Audit observed that in the PIC it was mentioned (November 2011) that ₹1.77 crore was released to the IP in March 2011 for delivery and installation of hardware and it was directed that the Department release up to 65 per cent of payment for hardware delivered and installed. In the meanwhile, the IP agreed to provide a credit Note of ₹1.50 crore due to changes in the tax rates as well as the quantities of hardware. As a result, balance amount of ₹5.63 crore was payable for hardware. The PIC approved release of ₹3.04 crore to IP in November 2011. Thus, Department's stance was contradictory, as PIC/EC had directed the Department to consider release of the payments to IP. PIC also approved the Department's proposal for audit of previous payments released to IP. In case the Department was not releasing the payments to IP, then the proposal for audit of payments released defies logic. However, no reference was found on records regarding conduct of audit and name of the agency from whom audit was got conducted. Further the status of audit of payments, even though called for was not provided to audit. The status of credit note of ₹1.50 crore given by the IP and mode of its adjustment in the account of the Department/EC was neither found on records nor apprised to audit. In the absence of availability of complete information of amount spent on the project, achievement of milestones/deliverables etc. could not be verified.

2.3.5 Incomplete work by Project Consultant

The IP apprised (August 2015) that User Requirements Specification (URS), System Requirements Specification (SRS) and Software Design Document (SDD) are not signed off and requested the Department to sign off the documents. The Department informed that it was a lengthy exercise for which a Committee had been formulated which will verify the same by October 2015. It was observed in audit that the PIC approved (December 2015) the final payment of Project Consultant (M/s PwC) for last quarter (April-June 2015) even though

documents like SRS, SDD and URS sign off and proper exit plan are still pending with M/s PwC as on November 2016. In the absence of these documents, the probability of meeting the operational requirements of the Department remained doubtful.

On this being pointed out, the Department replied (October 2017) that sign off of these documents was approved by PIC in June 2017. The reply is not acceptable as IP was supposed to submit hard copies of URS, SDD and ATS documents, which were yet awaited (December 2017).

2.3.6 Legacy data Conversion

As per provisions of MSA, IP was to digitize the legacy data for the period 2005 to 2010 as per **Annexure-IV**. However, the Department later on held that digitised data for the period 2005-08 was not required as the period of assessment of these returns was over because of late signing of Contract. Thus, the PIC approved the period of data digitisation from 2005-10 to 2008-13 on the request of the Department. However, the decision to change the legacy data period was arbitrary as period of assessment was not exhausted in case of issue of notices issued to the dealers under Section 21(4) of HP VAT Act, 2005.

The PIC was apprised (May 2015) that IP had done data digitisation of 1.32 lakh return forms but there were some discrepancies in the legacy data digitised. The PIC had even constituted a Sub-Committee of Department, Project Consultant and IP to verify the legacy data, which made following observations:

Table-2.5 Details of deficiencies in legacy data

Issue	Observations of Sub-Committee
Out of 15,141 annual returns digitised, only 7 have been digitised in Form XV-A while 15,134 have been wrongly digitised in Form XV.	TCS to correct these records.
TCS captured the tax payable but has not captured the amount of actual tax paid by the dealer.	TCS to verify and correct such records.
In some records, the tax payable is too high or too low e.g. ₹45,000 crore or (-) ₹6,000 crore.	TCS to verify and correct such records.
There are approximate 72 duplicate records.	TCS to verify and correct such records.
For four records, the tax period is shown as 2019/2010.	TCS to verify and correct such records.

The compliance to the observations of the Sub-Committee was asked for in audit but not made available by ETD. No evidence was available on record to show the digitization of all records as per MSA and its approval by PIC. The period of Annual returns digitised was also not mentioned. The PIC had directed (March 2013) that data digitisation and verification to be completed within next six months. Thus, the work of legacy data digitisation required to be completed by September 2013 was still incomplete till November 2016. The successful implementation of the HIMTAS Application was doubtful in view of non-completion of data digitisation.

On this being pointed out, the Department replied (October 2017) that issue of data digitisation was closed by PIC in meeting held in August 2015. The reply is incomplete as digitisation of data as per provisions of MSA was neither brought on records nor apprised to audit and legacy data conversion was still incomplete.

2.3.7 Updation of PAN database of the dealers

The RFP of the Project inter alia provided that in view of reference to Goods and Service Tax in 2009-10 budget, the IP should consider various aspects and likely changes so that transition from VAT to GST is done seamlessly. The Department stated (June 2013) that after verification of the dealers with the NSDL database, it was found that majority of the dealers have provided wrong PAN numbers. Accordingly, Department planned (March 2015) to integrate with NSDL for online verification of PAN to increase the accurate collection of PAN of all dealers, which is a major requirement for migration to GST. The Department had sent (May 2015) data to NSDL for verification and after verification, the percentage of correct PANs was expected to increase to *75 per cent*. The Department wrote to field officials to collect PAN from remaining dealers for being sent to NSDL for verification and fixed 25 August 2015 for correcting all PAN after which their TINs will be cancelled. It was also directed to share updated report with the EC and the GSTN after necessary updation in the Department's database. The status of updation of PAN/cancellation of TIN was not known and as such it was difficult to assess the readiness of the State for seamless transition from VAT to GST.

On this being pointed out, the Department replied (October 2017) that *97 per cent* of dealers had migrated to GST till 15th June 2017. The reply is not relevant as the same is silent about correction of PAN database of its dealers as Department itself brought on records that most of the dealers had provided wrong PAN numbers.

2.3.8 Final Testing and Certification of VAT-IT Project

The project shall be governed by the mechanism of final acceptance, testing and certification to be put into place by the EC:

- i. from a technically competent agency for conducting final acceptance testing and certification.
- ii. The Final testing and Certification Agency will be involved with the Project from the development stage to ensure that the guidelines are being followed and to avoid large scale modifications pursuant to testing done after the application is fully developed;
- iii. The Final Testing and Certification Agency may engage professional organizations for conducting specific tests on the software, hardware, networking, security and all other aspects;

However, the Department issued (January 2013) orders for constituting teams of officers for conducting Final Acceptance Test (FAT) of 23 Modules (approximately) rolled out under VAT-IT Project by the IP. Thus, FAT was neither got done by the technically competent agency nor was associated with the project from the development stage. It was also noticed in audit that the Department was not even sure about the number of Modules actually rolled by the IP. Incidentally, the PIC in its meeting in October 2013 took on record final testing of 23 Modules by visiting five pilot locations against requirement of 90 *per cent* of one hundred locations of the Department earmarked for networking in the State. Further, PIC approved and recommended the release of ₹1.22 crore towards completion of milestone of FAT even though FAT was done only at five pilot sites. Thus, payment was released irregularly without completion of FAT as per stipulated milestone. The compliance to the findings/observations/suggestions/modifications, if any, suggested during the course of FAT though asked for by audit were neither provided nor could be inferred from the PIC deliberations.

In the absence of a credible FAT, it was not feasible to determine the extent of completion of the project and its ability to meet the program objectives.

On this being pointed out, the Department replied (October 2017) that roll out of system was carried out in five pilot locations. Thus, Department recommended release of ₹1.22 crore towards compliance of milestone of FAT without carrying out FAT at 90 *per cent* of one hundred locations earmarked for networking.

2.3.9 Go Live Certificate for IT Project

The IP while apprising the financials of the IT Project highlighted (November 2016) the delay in issuance of Go Live Certificate of the Project causing huge financial burden and requested PIC to look into the matter and suggest a solution.

Audit observed that the Department did not formally issue any 'Go Live' certificate of Project and simply started the O&M phase for five years with effect from 1st April 2013. The Department did not apprise the exact status of issuance of Go Live Certificate in spite of PIC directions. Thus, the IT Project was yet to get Go Live Certificate. In the absence of Go Live Certificate, efficacy of successful implementation of Project could not be ensured.

On this being pointed out the Department replied that Go live was given to IP w.e.f. 1st April 2013. The reply is not acceptable as PIC had allowed start of O&M phase of project from 1st April 2013 and as such no formal approval of Go live certificate was accorded.

2.3.10 Appointment of new Project Consultant

The actual level of performance of the services should be same as specified in the SLA. As per terms and conditions of SLA, penalty was leviable on the IP from

the payments of O&M cost for deficiency in Service Level as per measurement Matrix provided in SLA. In view of the completion of contract period of PwC, decision on the penalties could not be taken by the PIC. In the meanwhile, EC informed that payments would not be released without clearance from newly appointed consultant. However, the approval for hiring the project consultant was pending with the State Government.

On this being pointed out, the Department replied that consultant had been appointed through NIC-SI. However, the consultant was yet to be nominated in spite of State Government approval for hiring Sr. Consultant and Consultant from NIC-SI in August 2016 involving financial outlay of ₹14.84 lakh. Further, the tenure of appointment and basis of fixation of financial package was not appraised by the Department.

2.3.11 Penalty for deficient service by Implementation Partner

In view of pending clearance of proposal for appointment of Consultant from the State Government, PIC decided to recommend the release of payment after withholding maximum amount of penalty leviable under SLA. Further, the payments recommended were subject to review by the consultant as and when appointed and actual penalty recommended will then be deducted. It was seen that Department had deducted penalty of ₹11.00 lakh (at the maximum level) in view of deficiency in service/deliverables under the Project as per measurement matrix of SLA for the quarters viz. Q3 and Q4 of 2015-16 and Q1 and Q2 of 2016-17.

2.3.12 Non-extension of hardware warranties

The IP informed (December 2015) that warranties for critical DC hardware and Oracle ATS were renewed for one year but warranties of some hardware were pending for renewal which was required for the successful execution of the Project. The IP sought additional cost for extension of warranties as these renewals were outside the scope of work in view of completion of five years in the project. The PIC asked the IP to apprise the overall cost liability. Further, Department was of the view that World Bank will be assisting for up-gradation of hardware for GST readiness, which may be commissioned in Financial Year 2016 and extension of warranties may not be required beyond 2016. Thus, Department's approach towards the maintenance of the Project hardware was not comprehensive.

2.3.13 Inadequate UPS and Power Issue

The IP apprised (November 2016) that UPS were installed to take load of defined number of nodes and sought additional UPS in view of increase in number of nodes with the passage of time and more load due to advent of GST. The PIC asked the IP to handle the system as per defined scope. The IP apprised that certain additional nodes were set up as per the guidelines of the Department on

chargeable basis, for which payment was not released. Thus, availability of the system in case of power disruption was not ensured and it may result in disruption/loss of data.

On this being pointed, out the Department replied (October 2017) that entire hardware was to be replaced as per advisory received from GSTN. Thus, Department failed to synchronize the project paraphernalia with those of GSTN at the time of planning/execution of project.

2.3.14 Non-conduct of third party Security Audit of Project

In terms of clause 6.4 of MSA, Security audit and implementation audit of the system shall be done once each year at the cost of IP by EC or its nominated agency. The minutes of PIC mentioned (August 2015) that IP had been conducting Security Audit internally every year and for the ongoing year in June 2015. However, the Department asked the IP to share the audit findings. The Department also asked the DIT to get the third party Security Audit of the servers and Data Centre conducted. The DIT asked the IP to share the IP addresses of the servers and test user's credentials of application and Web portal. However, the status of internal audit findings as well as third party security audit though asked for was not provided to audit. Subsequent minutes of PIC meetings did not reveal any evidence of the findings of the internal/third party audit and details of remedial action.

It was observed in audit that project consultant in its report of 'Functionalities Compliance' stated that although the portal is SSL certified and an audit was conducted in 2010 only against requirement of Annual Audit and a fresh audit was suggested. Moreover, compliance of the observations, if any, could also not be observed from the records of the Department.

The project consultant directed (March 2013) to conduct a Standardization Testing and Quality Certification (STQC) of the application and Web Portal to ensure security compliance as per GOI standards, whose compliance was also not brought on records.

2.3.15 Archival and Recovery

There should be an effective backup solution for the data generated by the system. The VAT application should include facilities at all the locations for archival of static data, transaction data with timestamps. In case of any system failure, there should be checking of proper restoration during the backup and restarting the data backup. Although the project ensured this aspect and backup was created but the same was stored at same location.

2.3.16 Deficiencies in Web Portal and Application

The project Consultant submitted (May 2013) a report on Functionalities Compliance of the Project by mapping the requirements defined in the RFP with the application developed by IP, which brought out the functional requirements not implemented as detailed in **Annexure-V and VI**, viz. Web Portal of the Project did not contain all relevant Acts and Rules, important Judgments relevant to the Department, search on tax rates on the basis of commodities, list of major tax payers and defaulters with the amount of tax paid and defaulted etc. Audit observed that most of the Acts and Rules including CST Act, 1956 and Rules 1957 were still not updated on real time basis, while HP Excise Act, 1911, HP Liquor License Rules, 1986 were not updated at all. Toll Announcements under HP Toll ACT, 1975 were uploaded for 2008-09, 2009-10 and 2011-12 alone. Similarly, important Judgments were uploaded from August 2014 onwards alone. Facility of search on tax rates on the basis of commodities was still not uploaded. List of major tax payers and defaulters with the amount of tax paid and defaulted etc. were not uploaded on the Portal etc.

On this being pointed, out the Department replied that in view of implementation of GST w.e.f. 1st July 2017 there is no need to improve the project software. Thus, Department failed to make use of Project in-spite of incurring expenditure on its setting up as well as O&M thereof since 1st April 2013.

2.3.17 Compliance Irregularities

2.3.17.1 Economic Intelligence Unit

The Excise and Taxation Department set up Economic Intelligence Unit (EIU) on 18 July 2013 on the basis of Government of H.P. notification. EIU headed by Deputy Excise and Taxation Commissioner, started functioning in September 2013 for performing the functions like Registration Data Analysis, Return Analysis, Audit Data Analysis, 360 Degree Analysis, Commodity Analysis, Dealer Profiling (Star Rating), Data Management Feedback Analysis, Business Intelligence and Data Warehouse, Cyber Forensics etc. Thus, the EIU was established for the analysis of online data uploaded by the various dealers of H.P, various kinds of mismatches which were observed online are sent to the District offices or flying squads for further investigation. No specific target in quantitative terms had been fixed for the unit. It was observed in audit that:

- i.* test check of the records of Sirmour, Baddi and Solan Revenue Districts revealed irregularities of excess claim of input tax credit (ITC) intrastate purchases/sales not matching, and circular trading of ₹441.10 crore by 189 dealers with following dealers involving significant amounts:

Table-2.6 Details of ITC mismatch

			₹ in crore
Sr. No.	TIN	Year	Amount
1.	02020500703/704/705	2014-15	232.26
2.	02040201053	2012-13	204.00
3.	02040200799	2012-13/13-14/14-15	1.21
4.	02040400186	2013-14	1.06
5.	02030101569	2013-14	1.04
6.	02030100143	2013-14	1.53
Total			441.10

Audit observed that one case of ITC mismatch involving ₹232.26 crore in Solan Revenue District, suspected of circular trading was forwarded to the concerned AETC way back in November 2014 but the same was not yet probed. Similarly, disposal of other cases of excess ITC claim could not be inferred from the records of the concerned Districts as well as Department. Thus, serious instances having possibility of fictitious claim of ITC were not probed to the logical conclusion which may result in loss of revenue to the State Government.

- ii. Similarly, test check of records revealed cases of purchase and sales suppression of ₹1,588.66 crore were also not finally disposed of or their status could not be inferred from the records of the Department. The tax implication of cases involving higher amounts is as follows:

Table-2.7 Details of Purchase/Sales suppression

				₹ in crore
Sr. No.	TIN	Year	Purchase/Sale Suppression	Amount of VAT due
1.	02020200416	2011-12 to 2013-14	1,248.10	62.41
2.	02040400310	2012-13/13-14/14-15	127.05	6.35
3.	02040400180	2013-14	59.42	2.97
4.	02040400219	2012-13/13-14	25.52	3.51
5.	02030201238	-	4.47	0.22
6.	02030300460	2011-12 to 2013-14	36.25	1.81
7.	02020500613	2012-13 to 2014-15	87.85	4.39
Total			1,588.66	81.66

- iii. Test check of 120 dealers out of 12,890 dealers in Sirmour, Baddi and Solan Districts revealed that these dealers had made payment of VAT lower than previous year aggregating to ₹231.03 crore during 2013-14/2014-15 with instances of substantive variation detailed below:

Table-2.8 Details of cases of reduced payment of VAT

			₹ in crore
Sr. No.	TIN	Year	Amount
1	02030200804	2014-15	69.54
2	02040200757	2014-15	7.82
3	02030100669	2013-14	14.87
4	02030200908	2013-14	9.92
5	02030300618	2014-15	13.37
6	02060600235	2013-14	6.37
7	02020100439	2014-15	2.86
Total			124.75

- iv. There were abnormal differences in GTO, ITC and amount of tax payable *vis-a-vis* figures of the previous years during the years 2012-13, 2013-14 and 2014-15 as per details given below:

Table-2.9 Details of variation in GTO/ITC/Tax payable

Name of District	No. of cases		GTO	ITC	Tax Payable
	Total	Test check			
	Sirmour	6,186			
Solan	16,385	50	112.61	1.07	5.96
Baddi	9,499	60	281.56	6.04	3.30

- v. The Baddi Revenue District raised additional tax demand of ₹26.51 crore in 256 cases during the period 2009-10 to 2013-14. However, the status of tax deposited against the additional tax demand though asked for in audit was neither available on the HIMTAS Application nor was apprised to audit.
- vi. A significant number of registered dealers in Sirmour had even not filed their Returns on the HIMTAS Application as per details given below:

Table-2.10 Details of late/non-filers of returns

Year	No. of Registered dealers	Late Filers	Non-Filers
2012-13	3,246	492	1,984
2013-14	3,649	263	1,173
2014-15	3,954	345	1,665

- vii. Seven dealers in Sirmour district had claimed input tax credit of ₹11.18 lakh from cancelled/suspended dealers during the years 2013-14 and 2014-15.

On this being pointed out the Department replied that Sirmour District had been asked to inquire into the matter. As regards other compliance irregularities Department replied that it was practically impossible to look into each and every mismatch. Thus, Department failed to utilize the leads generating from the Project to plug the leakage of revenue.

2.3.18 Utilization of back office automation

The PIC observed from time to time that usage statistics of Web Portal by dealers was increasing while usage of back office application was not only low but also decreasing. In order to increase the usage of Web Portal Departmentally, instructions were being issued from time to time.

- i. Assistant Excise and Taxation Commissioners and Assessing Authorities were directed for using secondary modules like assessment, refunds etc.
- ii. The field staff was also asked to make use of the software and put more and more cases under Deemed Assessment.

- iii. All Assessing Authorities were asked to complete 25 *per cent* of return scrutiny mandatorily, all assessment should be done on the module and parameters should be incorporated in their ACRs.

Audit observed that as on 31 March 2016, different AAs finalized 129 e-assessments whereas 13,42,264 dealers had filed e-returns. The Department replied that pre-computerization assessments cases are pending for finalization.

On being asked about the follow up action taken on the output reports (leads) generated under the system, the Department replied that the field authorities were taking appropriate action on these reports as warranted under the Law. However, there was no evidence of any policy directive/perusal at the Hqrs. level on the leads generated by the system.

There was no improvement in the usage of back office automation by the Department. The PIC asked (November 2016) IP, to display the usage of different modules by Department officials. The Department replied that most of the back office application modules are to be used after the assessment. Due to shortage of staff, the assessment work was slow and reason for low usage of back office modules.

The reply is not accepted as non-finalisation of any definite time frame for completion of pre-computerization assessments and not making the usage of the Application mandatory reduced its actual usage and also resulted in expenditure of ₹20.19 crore on the Project un-productive.

2.3.19 Conclusion

In view of materiality of issues mentioned in Functionality Compliance Report of the Project Consultant, it is evident that system had not been conceived and designed as per the best practices and serious gaps had been left while implementing the project. Moreover, due to non/partial implementation of functional requirements, the implementation of the project was still far away from completion. Apparently, it had failed to achieve the project objectives and it was not possible to quantify its impact on the efficiency of revenue collection and improvement in the working of the Department, if any.

Further, in view of implementation of GST from 1st July 2017 and Departments option for 'Implementation Model-2' under GST, as well as inability of Department to utilize the various modules set up under the project, the expenditure of ₹20.19 crore incurred on project remained unproductive.

The matter was reported to the Government in July 2017; its reply was awaited (December 2017).

2.4 Short levy of entry tax

The entry tax of ₹1.38 crore was levied against the leviable entry tax of ₹2.41 crore resulting in short levy of entry tax by ₹1.03 crore.

Himachal Pradesh Tax on Entry of Goods into Local Area Act, 2010 (TEGLA) under Schedule-II provides that goods used in the works contract including Hydropower and Thermal power projects, Generation, Transmission and distributions projects, telecommunications and all other turnkey projects being executed by private as well as Government Departments/Corporations/Board etc. in the State will attract entry tax at the rate of five *per cent*. This is applicable to dealers registered outside the State and supplying goods in Himachal Pradesh.

The HPSEB Ltd. purchased 6,16,966 electronic energy meters from four dealers registered outside the State valuing ₹48.24 crore during the period 2011-12 and 2012-13. The entry tax was leviable at the rate of five *per cent* amounting to ₹2.41 crore while Multipurpose Barriers of the Excise Department had charged entry tax at the rate of 3 *per cent* amounting to ₹1.38 crore on the energy meters. This resulted in short levy of entry tax of ₹1.03 crore.

The matter was reported to the Department and the Government in (June 2017); the Department replied (September 2017) that entry tax was charged at the rate of three *per cent* on the cost of electronic meters supplied. The reply is not acceptable as entry tax at the rate of five *per cent* was leviable under Entry No. 5 of Schedule-II of HP TEGLA, 2010 as the electronic meters supplied by a private contractor/vendor were to be used in distribution of energy by HPSEB Limited. Further, the Department had also levied and recovered entry tax at the rate of five *per cent* from HPSEB Ltd. in respect of purchase periods pertaining to the years 2010-11 and 2011-12 in another assessment of entry tax made in November 2015.

2.5 Incorrect determination of Gross Turnover

The Assessing Authority during assessment of a dealer for the years 2008-09 and 2009-10 excluded income of ₹6.39 crore from the Gross Turnover resulting in loss of revenue of ₹25.52 lakh. Besides, interest was also leviable.

Under Section 2(v) (zd) of the HPVAT Act, 2005 turnover means the aggregate amount of sales, purchases or any part of sales and purchases made by any dealer and includes any sum charged on account of freight, storage, demurrage, insurance and for anything done by the dealer in respect of the goods at the time of or before delivery thereof. Further, under Section 19(1) of the Act *ibid* if any dealer fails to pay the amount of tax due from him, the interest is leviable at the prescribed rates till the default continues.

Scrutiny of the records of the AETC, Mandi between June and July 2016 revealed that Assessing Authority (AA) had finalized the assessment of a dealer in June and July 2015 for the assessment years 2008-09 and 2009-10 on GTO of ₹72.62 crore and ₹90.42 crore respectively. The taxable turnover of the dealer for the years 2008-09 and 2009-10 did not include income of ₹3.10 crore and ₹3.29 crore respectively. The AA in its assessment order did not furnish any reasons for not including the income to the GTO of these assessment years. Thus, short assessment of GTO by ₹6.38 crore resulted in short levy of tax of ₹25.52 lakh. In addition, interest was also leviable on short payment of tax up to 31 March 2017.

The matter was reported to the Department and the Government in June 2017; the Department replied (August 2017) that income represented incentives on fulfillment of sale norms and had been duly accounted for in Profit and Loss Account. The reply is not acceptable as 'sales and operational income' of ₹564.98 crore for 2008-09 and ₹633.58 crore for 2009-10 already included incentives earned by the dealer and as such Department's contention regarding 'other income' representing incentive was not correct. Further the 'other income' forming part of Consolidated Annual Accounts of ₹1.30 crore and ₹97.00 lakh was even less than the income depicted by the dealer in respect of its showroom in Mandi District. Further under Rule 17, a registered dealer is allowed deduction from his gross turnover 'an amount allowed as cash discount provided such discount is in accordance with regular trade practice' and it did not provide for any deduction towards incentives. Thus, exclusion of income of ₹6.39 crore from GTO resulted in short levy of VAT amounting to ₹25.52 lakh. The reply of Government was awaited (December 2017).

2.6 Incorrect determination of Gross Turnover

Loss of revenue of ₹7.68 crore to State Government due to under assessment/exclusion of income of ₹61.42 crore from Gross Turnover.

Under Section 2(v) (zd) of the HPVAT Act, 2005 turnover means the aggregate amount of sales, purchases or any part of sales and purchases made by any dealer and includes any sum charged on account of freight, storage, demurrage, insurance and for anything done by the dealer in respect of the goods at the time of or before delivery thereof. Further, under Section 19(1) of the Act *ibid* if any dealer fails to pay the amount of tax due from him, interest is leviable at the prescribed rates till the default continues.

Scrutiny of the records of the AETC, Bilaspur revealed that AA had finalized the assessment of a dealer in June 2015 for the assessment years 2006-07 and 2007-08 on Gross Turnover (GTO) of ₹95.19 crore and ₹103.09 crore respectively. However, the Trading and Profit and Loss Account depicted GTO of ₹139.60 crore and ₹161.13 crore during the years 2006-07 and 2007-08

respectively. The AA during assessment excluded GTO of ₹25.51 crore and ₹35.91 crore on account of unbilled amount pertaining to Delhi Office. However, the exclusion of GTO amounting to ₹61.42 crore was not admissible as ITD Public Company Ltd. had been incorporated under the Laws of Thailand and the Company gave an intimation on February 6, 2004 to the Reserve Bank of India for opening a project office in India to execute a construction contract awarded by NTPC Ltd. for dam, spillway and power intake in respect of *Kol* dam Hydro Electric Project in Himachal Pradesh and financial statements reflected the results of the activities undertaken by the Company. Thus, the Trading and Profit and Loss account reflected the working results of *Kol* dam Hydro Electric Power project alone and exclusion of income of ₹61.42 crore from GTO was not admissible. The exclusion of income of ₹61.42 crore from GTO resulted in short levy of tax by ₹7.68 crore (tax rate of 12.50 *per cent*).

The matter was reported to the Department and the Government in June 2017, its reply was awaited (December 2017).

2.7 Short deduction of Works Contract tax

Loss of revenue of ₹3.17 crore due to non-deduction of works contract tax on Sub contract payments.

Rule 38(i) of the Himachal Pradesh VAT Rules provide for every person entering into a contract with a works contractor or a works contractor entering into contract with a sub-contractor for transfer of property in goods in execution of a works contract shall furnish to the appropriate Assessing Authority, particulars of such contract in Form VAT-XII within a period of thirty days of such contracts. Further Rule 38(4) provides that the deduction under sub-rule (1) shall be made from all payments made in respect of all works contract executed, whether in part or in full. The provisions of Section 17 of HPVAT Act and Rule 38(3) provided that every person in a Department of any Government/Corporation/Government Undertaking, Co-operative Societies, Local Bodies, Trust or Private or Public Limited Company or any other concern, responsible for making any payment on discharge of any liability on account of valuable consideration payable in the execution of works contract shall deduct an amount equal to two *per cent* of such sum towards the tax deduction from all works contracts.

2.7.1 Audit noticed from the assessment records of AETC Bilaspur that AA, while finalizing the assessment of a dealer for the years 2006-07, 2007-08, 2008-09 and 2009-10 in June 2015 had deducted labour charges included sub contract deduction of ₹140.79 crore. However, the dealer deducted WCT⁴ of ₹46.76 lakh at the rate of two *per cent* on sub contract payment of ₹23.38 crore only instead of total subcontract charges of ₹140.79 crore. Thus, deduction of

⁴ Works contract tax

sub contract payment of ₹117.41 crore was allowed as labour charges without deduction of WCT of ₹2.35 crore (at the rate of 2 per cent on ₹117.41 crore) by the dealer. This resulted in short deduction of WCT of ₹2.35 crore.

2.7.2 Scrutiny of assessment order of a dealer of AETC Mandi for the year 2009-10 revealed that the dealer had claimed Sub-contractor expenses of ₹48.62 crore and labour charges of ₹40.93 crore out of GTO of ₹140.18 crore. Audit observed that though dealer had deducted WCT at the rate of two per cent from the sub-contractor against the payment of ₹48.62 crore towards the transfer of material. WCT was not deducted on the labour charges of ₹40.93 crore. This resulted in short recovery of tax of ₹81.85 lakh.

The AA did not point out this irregularity in its assessment order, which resulted in short deposit of tax by ₹3.17 crore.

The matter was reported to the Department and the Government in June 2017. The Department in its reply (August 2017) stated that dealer of Mandi District had claimed labour charges of ₹40.93 crore but labour charges of ₹35.04 crore were allowed at the rate of 25 per cent of GTO by the AA and it cannot be termed as sub contract labour as the same were actual labour expenses made by the dealer. The reply is not acceptable as the dealer had admitted sub contractors work bills aggregating to ₹89.55 crore as per Schedule appended to Annual Accounts for the period of assessment. Rule 38(4) provides that tax deduction was applicable from all payments made in respect of all works contract executed and as such WCT was deductible on Sub-Contractor bills aggregating to ₹89.55 crore. The reply of Government was awaited (December 2017).

2.8 Inadmissible deduction of hire charges and non-levy of Entry tax

Inadmissible deduction of consumable purchases for works contract and non-levy of entry tax on interstate purchases, resulted in loss of revenue of ₹77.58 lakh.

2.8.1 Rule 17(4) (a) of the Himachal Pradesh VAT Rules stipulates that the value of the goods involved in execution of a works contract shall be determined by taking into account the value of the entire works contract and deducting there from the components of payment made towards labour and services, including charges for obtaining for hire, machinery and tools used for the execution of works contract and cost of consumables, such as, water, electricity and fuel, used in the execution of works contract, the property in which is not transferred in the course of execution of a works contract.

Scrutiny of records of AETC Mandi brought out that the AA while assessing a dealer for the year 2011-12 determined the GTO as ₹14.58 crore after allowing admissible deductions as per the provisions of the HPVAT Act/ Rules, 2005. The AA allowed deduction of ₹4.11 crore towards hire charges of machinery and

Tipper which were infact 'consumable purchases'. Further, hire charges of machinery were already included in deduction of ₹91.28 lakh allowed by the AA. Further, AA had also allowed deduction of ₹77.78 lakh towards fuels and lubricants being items of consumable purchases. Thus, inadmissible deduction of ₹4.11 crore resulted in short levy of tax by ₹20.55 lakh on minimum applicable rate of five *per cent*.

The matter was reported to the Department and the Government in June 2017. The Department replied (August 2017) that deductions of other consumables goods worth ₹4.11 crore was allowed as per provision of HPVAT Rules, 2005. The reply is not acceptable as deduction of ₹4.11 crore was allowed on account of hire charges of machinery and tipper which were already allowed in deduction of ₹91.28 lakh allowed by the AA and as such further deduction of consumable purchases was not admissible under HPVAT Rules, 2005.

2.8.2 Section 3(1) of Himachal Pradesh Tax on Entry of Goods into Local Area Act, 2010 (TEGLA) provides that there shall be levied and paid to the State Government a tax on the entry in the course of business of a dealer, of the goods specified in Schedule-II into each local area for consumption, use or sale therein.

Audit observed that AA allowed deduction of ₹77.78 lakh on account of fuel and lubricants to machineries used for the execution of works contract. The fuel and lubricants were reported to be purchased within the State and not through interstate. Scrutiny of details of local purchase did not reflect purchase of fuel/lubricants with applicable tax rates i.e. 9.60 *per cent*. Thus, purchase of fuel and lubricants was made through interstate liable to imposition of entry tax of ₹9.33 lakh. Audit further, observed that the dealer had made interstate purchase of bitumen for ₹9.54 crore which was also liable to imposition of entry tax of ₹47.70 lakh. Thus, non-levy of entry tax on interstate purchase of fuel, lubricants and bitumen aggregating to ₹10.32 crore resulted in loss of revenue of ₹57.03 lakh.

The matter was reported to the Department and the Government in June 2017; the Department replied (August 2017) that interstate purchase of bitumen was not liable to Entry tax. The reply is not acceptable as bitumen did not figure in Schedule-I of TEGLA dealing with tax-free goods and as such entry tax was leviable on interstate purchase of bitumen (December 2017).

2.9 Excess allowance of labour charges in works contracts

Excess allowance of labour charges and deduction for petty contractors payments resulted in short levy of tax by ₹3.46 crore.

Rule 69(2) of HPVAT Rule, 2005 provides that where the labour charges are not determinable from the accounts of the works contractors or are considered unreasonably high in consideration of the nature of the contract, the deductions towards labour charges shall be allowed by the AAs according to the limits

prescribed in column (3) for the type of contract specified in column (2) of the table of the Rules *ibid*. The *ibid* Rule provides for labour charges at 25 per cent of the value of the contract of civil works like construction of building, bridges, roads, dams, barrages, canal and diversions etc.

Audit noticed from the assessment records of the AETC, Mandi that the Trading Account of a dealer revealed labour payments of ₹11.31 crore and direct expenses and consumables amounting to ₹20.08 crore aggregating to ₹31.39 crore for the year 2013-14. There were also other purchases of ₹9.50 crore. The AA in its assessment order allowed tax-free labour of ₹31.39 crore from the GTO of ₹49.17 crore. Thus, the AA allowed labour charges of ₹31.39 crore as against the admissible amount of ₹12.29 crore at the rate of 25 per cent of the value of work done as per provisions of the Rule 69(2). Incidentally, the trading account of the dealer indicated labour charges of ₹11.31 crore and as such labour charges should have been restricted to that amount. Further, the AA also allowed the deduction of ₹10.21 crore out of the GTO towards petty contractors for earth cutting work, which was not at all reflected/incurred as per the Trading Account of the dealer. Thus, excess allowance of labour charges/deduction for petty contractors to the dealer resulted in short levy of tax by ₹3.46 crore.

The matter was reported to the Department and the Government in June 2017. The Department in its reply (August 2017) forwarded reassessment order made by AA on ground of suppressed taxable sales, which was not accepted as Draft Para highlighted excess allowance of labour charges and not suppression of sale. The reply of Government was awaited (December 2017).

2.10 Short levy of tax due to calculation mistake

Assessing Authorities while finalising the assessments of the dealers assessed the taxable turnover at applicable tax rates but calculated output tax as ₹1.30 crore against the actual liability of ₹2.37 crore resulting in short levy of tax of ₹1.07 crore.

Schedule A of Section 6 of HPVAT Act, provides that tax is leviable on sales made by a dealer. Further, Section 19 of the Act *ibid* provides that if a dealer fails to pay the tax due by the prescribed date, he becomes liable to pay interest at the rate of one per cent on the tax due for a period of one month and at the rate of one and half per cent per month thereafter till the default continues.

Scrutiny of the records of three AETCs⁵ between December 2016 and April 2017 revealed that taxable turnover (TTO) of three dealers was calculated at ₹51.21 crore for the tax periods 2010-11 to 2013-14. AAs while finalising (between April and August 2015) the assessments of the dealers assessed the TTO at applicable tax rates and calculated output tax of ₹1.30 crore against the actual

⁵ Baddi, Solan and Una

output tax liability of ₹2.37 crore. This resulted in short levy of tax of ₹1.07 crore. Besides, interest on short tax was also accrued.

On this being pointed out, AETCs Solan and Una stated that after reviewing the cases action would be taken as per Act/Rules whereas AETC Baddi did not furnish any reply.

The matter was reported to the Department and the Government between February and April 2017, their reply is awaited (December 2017).

2.11 Non-realisation of Entertainment Duty

The Excise and Taxation Department did not levy entertainment duty on cable operators thereby forgoing revenue of at least ₹9.93 crore.

The Cable TV Network (Regulation) Act, 1995, provides for mandatory registration of cable operators with the registering authority namely Head Postmaster of a Head Post Office of the area within whose territorial jurisdiction the office of the concerned cable operator is situated. Section 3 of the HP Entertainment Act, 1968, provides for levy of entertainment duty at the rates to be specified by the Government that shall be collected by the proprietor and rendered to the Government treasury. The Himachal Pradesh Entertainment Duty (Amendment) Act 1999 brought in 'cable television' and 'television exhibition' as defined therein within the ambit of the HP Entertainment Act. Television exhibition includes an exhibition with the aid of any type of antenna with a cable network attached to it.

Test check of the records of five AETCs⁶ and information obtained from District Public Relation Officers (DPROs) revealed that there were 36 cable operators registered in these Districts. However, none of the cable operators were paying any entertainment duty on the entertainment services rendered to their subscribers though they were charging a fee from their customers for the entertainment supplied. The Excise and Taxation Department vide notification of May 2012 had stipulated that duty on all kinds of entertainments shall be levied at the rate of 10 per cent of the payment for admission with immediate effect. Levy of even 10 per cent on the rates charged by the cable operators from their subscribers would result in accrual of revenue of ₹9.93 crore from the cable operators as depicted below.

⁶ AETCs Baddi, Kullu, Shimla, Solan and Una

Table-2.11 Non-realisation of Entertainment Duty from cable operators

(in ₹)							
Name of District	Total no. of cable operators	No. of Cable Connections	Rate per connection	Period of Entertainment duty payable	No. of months	Amount realized from cable connections	Entertainment duty @ 10 per cent
1	2	3	4	5	6	7	8
Baddi	6	10,400	150 to 260	May 2012 to March 2016	109	2,52,97,000	25,29,700
Kullu	2	11,227	150	April 2013 to March 2016	41	2,73,55,050	27,35,505
Shimla	4	1,57,251	200 to 210	April 2014 to March 2016	96	76,87,96,800	7,68,79,680
Solan	9	14,285	200 to 270	May 2012 to March 2016	270	7,77,17,000	77,71,700
Una	15	11,995	100 to 200	May 2015 to March 2016	295	9,34,81,300	93,48,130
Total	36	2,05,158				9,926,47,150	9,92,64,715

The matter was reported to the Department and the Government between July 2016 and May 2017. The Department intimated (September 2017) that notices had been issued to all the cable network operators for recovery of the Entertainment duty by all AETCs. The reply of Government was awaited (December 2017).

Chapter-III
State Excise

CHAPTER-III **STATE EXCISE**

3.1 Tax administration

The Additional Chief Secretary (Excise) is the administrative Head at Government level. The Department is headed by the Excise and Taxation Commissioner (ETC). The Department has three Zones¹, which are headed by the Additional ETC (South Zone), Deputy ETCs of North Zone and Central Zone. Besides, 255 Excise and Taxation Inspectors under the control of the Assistant Excise and Taxation Commissioners (AETCs) of the respective Districts are deputed to oversee and regulate levy/collection of excise duties and allied levies.

3.2 Results of audit

In 2016-17, test check of the records of 10 units relating to state excise duty revealed non/short realisation of excise duty/license fee/interest/penalty and other irregularities involving ₹144.30 crore in 29 cases depicted below.

Table-3.1 Results of audit

Sr. No.	Categories	Number of cases	₹ in crore
			Amount
1.	Performance audit 'Working of State Excise Department including working of distilleries'	01	132.46
2.	Non/short realisation of excise duty	01	0.06
3.	Non/short recovery of license fee/interest/penalty etc.	16	6.85
4.	Other irregularities	11	4.93
Total		29	144.30

During the year 2016-17, the Department accepted under-assessment and other deficiencies of ₹93.12 lakh in 12 cases, out of which an amount of ₹46.75 lakh was realised in 12 cases pertaining to earlier years.

Performance audit having financial implications of ₹132.46 crore and other significant cases involving ₹3.50 crore are discussed in the following paragraphs.

¹ South Zone (Shimla, Solan, Sirmour, Kinnaur and Spiti area), North Zone (Chamba, Kangra and Una) and Central Zone (Bilaspur, Hamirpur, Kullu, Lahaul area and Mandi)

3.3 Performance Audit on 'Working of State Excise Department including working of distilleries'

Highlights

- *Allowance of wastage in beer production without any provision in Rules resulted in loss of excise duty of ₹2.44 crore.*
(Paragraph 3.3.8)
- *Short allotment of liquor quota to 29 vends in one District vis-a-vis their potentiality resulted in short levy of license fee of ₹4.12 crore.*
(Paragraph 3.3.10)
- *There was loss of license fee of ₹1.82 crore due to excess lifting of liquor quota by 73 vends during the year 2015-16.*
(Paragraph 3.3.11)
- *The Department had not recovered license fee of ₹4.94 crore on short lifting of Minimum Guaranteed Quota by 358 vends of five Districts.*
(Paragraph 3.3.14)
- *The Department did not levy Excise duty of ₹18.29 crore on the production of Extra Neutral Alcohol by three distilleries.*
(Paragraph 3.3.16)
- *The Department did not levy Excise duty of ₹8.46 crore on export of beer by distillery of Sirmour District.*
(Paragraph 3.3.17)

3.3.1 Introduction

The State Excise duty is one of the major source of tax revenue, which is levied and collected on manufacture, storage, sale, import export of Liquor and Excise duty collected on medicinal and toilet preparations. The levy and collection of excise duty in the State is governed by the Himachal Pradesh Excise Act, 2011 and the provisions contained in Section 1, clause (3), (5), (6), (6-b), 9, 10, 11, 12, (12-a), (14), (16), (19) and (21) of Section 3 and Sections 16, 20, 21, 22, 23, 31, 32, 33-A, 58, 59 and 60 of the Punjab Excise Act, 1914. The grant of license for liquor is governed by Himachal Pradesh Liquor License Rules, 1986. The working of distilleries is governed by Punjab Distillery Rules, 1932. The excise duty on medicinal & toilet preparations containing alcohol, Opium, Indian hemp or other narcotic drug or narcotic is governed by Medicinal and Toilet Preparations (M&TP) Act, 1955 (Union Act) and is collected & appropriated by the State Government through State Excise Department.

3.3.2 Organizational set-up

The Additional Chief Secretary (Excise and Taxation) is the administrative head at Government level. The Excise and Taxation Department (ETD) is headed by Excise and Taxation Commissioner (ETC), who is empowered with the task of superintendence and administration of various fiscal measures, in addition to

quasi-judicial powers as Appellate and revisional authority under Excise laws. The Department has been divided in three Zones, which are headed by Additional ETC (South Zone), Deputy ETC of North Zone and Central Zone who have also been entrusted the powers of Collector. Besides, 255 Excise and Taxation Inspectors (ETI) under the control of Assistant Excise and Taxation Commissioner (AETC) of the respective Districts are posted at the site of distilleries/bottling plants and breweries and in circles under the control of AETCs to oversee and regulate levy/collection of excise duties and allied levies.

3.3.3 Audit Objectives

The Performance audit was conducted with a view to ascertain whether:

- levy and collection of excise duty, fees, supervision charges etc. under various Acts and Rules administered by the ETD is being done correctly and efficiently;
- collection of excise duty/cost of establishment is being made timely and fully from the distilleries/bottling plants working in the State;
- levy of excise duty under the M&TP Act, 1955 was being made correctly from the manufacture;
- optimum collection of revenue and proper enforcement of the various Acts and Rules was being made and
- adequate and effective internal control mechanism was in existence in the ETD.

3.3.4 Scope and methodology of audit

The Performance audit of the "Working of ETD including working of distilleries' covering the period 2011-12 to 2015-16 was conducted between January 2017 to May 2017 in ETC and six field offices out of 13 field offices having 16 out of the total 20 distilleries/breweries and bottling plants in the State.

An entry conference was held in April 2017 with the Principal Secretary (Excise), Government of Himachal Pradesh wherein the objectives, scope and methodology for conducting the Performance audit was discussed. The draft report on Performance Audit was forwarded to the Department and the Government in July 2017 and the Exit Conference with Additional Chief Secretary (Excise) and Joint Commissioner (Excise) was held in August 2017.

3.3.5 Audit Criteria

Audit criteria was benchmarked against the following sources:

- H.P. Excise Act, 2011,
- Punjab Excise Act, 1914,
- Punjab Distillery Rules, 1932,
- Announcements of Excise Allotments for the period 2011-12 to 2015-16,
- H.P. Liquor License Rules, 1986 and
- Medicinal and Toilet Preparations Act, 1955.

3.3.6 Trend of Revenue

The actual receipts of State Excise Duty increased from ₹707.36 crore in 2011-12 to ₹1,131.22 crore in 2015-16. It ranged between 16.89 and 18.58 per cent of the total tax receipts of the State Government.

Table-3.2 Details of SED revenue and total tax receipts

₹ in crore			
Year	SED Receipt	Total Tax Receipts	Percentage of tax receipts
2011-12	707.36	4,107.92	17.21
2012-13	809.87	4,626.17	17.50
2013-14	951.96	5,120.91	18.58
2014-15	1,044.14	5,940.16	17.57
2015-16	1,131.22	6,695.81	16.89

Source: Finance accounts

The percentage of collection of State Excise duty to total tax receipts showed a decreasing trend during 2014-15 and 2015-16 and it came down to 16.89 per cent in 2015-16 to 18.58 per cent in 2013-14.

System Deficiencies

3.3.7 Low yield of spirit from molasses

Rule 9.37 of Punjab Distillery Rules (PDR) 1932, provides that one mound (0.373 qtls.) of molasses shall be considered equal to 3.5 London Proof Gallon (15.391 Pls) of country spirit.

One distillery in Una District² put in 66,168 qtls. of molasses for manufacture of spirit during 2011-12 and 2015-16. The distillery reported actual yield of 23,83,348 Pls of spirit against the yield of 27,30,092 Pls, as per the norms. The actual yield is depicted below:

Table-3.3 Production of spirit from molasses

Year	Quantity of molasses used (in qtls)	Production as per rules (Pls)	Actual Production (Pls)	Less production (Pls)	Less Production in Bls (1Bls=1.68 Pls)	Excise duty leviable @ ₹10/ and ₹11/-Bls
2011-12	52,095	21,49,440	19,01,468	2,47,972	1,47,602	14,76,020
2015-16	14,073	5,80,652	4,81,880	98,772	58,793	6,46,723
Total	66,168	27,30,092	23,83,348	3,46,744	2,06,395	21,22,743

Thus, 2,06,395 BLs of spirit involving Excise duty of ₹21.23 lakh was short produced. The issue was also highlighted in the Performance audit on the 'Working of distilleries' in the year 2009 in Para No. 3.2.14, when the State Government stated (July 2009) that it was not possible to adhere to the norms of yield fixed under PDR, 1932 because of changed circumstances. However, steps were being taken to re-fix the norms as per the present realities.

² M/s RBL Ltd.

On this being pointed out, the Department admitted (September 2017) that yield rate had not been re-fixed and actual yield may be allowed in the absence of any rules.

The reply is not acceptable as norms were required to protect the pilferage of spirit and realisation of potential revenue.

3.3.8 Loss of duty on inadmissible wastage

Rule 35(1) of Punjab Brewery Rules (PBR), 1956 as applicable to Himachal Pradesh provides that duty on beer, at the prescribed rate, shall be charged on the total quantity actually brewed as entered in the brewing book by the licensee, or as ascertained by the Inspector and entered in his survey book Form B-6, whichever is higher, less an allowance of 8 *per cent* for wastage.

Audit scrutiny of records of two breweries³ revealed that 344.89 lakh bulk liters (Bl) of finished beer were received in the bottling tanks of two breweries in Solan and Sirmour Districts during the period 2011-12 to 2015-16. Out of this, wastage of 14.88 lakh Bls of beer was claimed and allowed by the AETCs after the beer reached the stage of bottling tanks. The Hon'ble Supreme Court of India in November 1996 in a case of M/s Mohan Meakin Ltd. Vs Excise and Taxation Commissioner, HP and others decided the merit that excise duty was eligible to duty at time when finished product i.e. beer was received in the bottling tanks or the finished product is removed from the place of storage or warehouse etc. without specifying any deduction of wastage. Thus, allowance of wastage in Beer was incorrect and resulted in loss of excise duty of ₹2.44 crore.

On this being pointed out, the Department stated (September 2017) that AETC Sirmour had been asked the concerned distillery to produce relevant records. While AETC Solan replied that actual wastage was being allowed. Reply is not acceptable as wastage was not admissible as per Supreme Court Judgment of November 1996.

3.3.9 Irregular allowance of breakage

HP Liquor License Rules, 1986 has not prescribed any wastage allowance due to breakage or leakage in transit, storage and issue of liquor for the wholesale suppliers of country and foreign liquor including beer. However, ETI who is entrusted with the work to maintain accounts of the wholesale suppliers is responsible to keep the record of all transactions including actual wastage occurred by physically verifying the breakage incurred. As per the provisions contained in the HP Liquor License Rules, 1986 all the licenses shall maintain accounts of receipts and sales in the forms mentioned and shall at the end of each month prepare and submit to the ETI, true abstract of receipts and sales by the 5th of the following month.

³ Sirmour: Carlsberg India Ltd.: ₹1.24 crore and Solan: Mohan Meakins Brewery: ₹1.20 crore

Audit scrutiny of records for the years 2011-12 to 2015-16 of four AETCs Offices revealed that L-13 and L-1⁴ licensees had shown breakage of 57,757 pl, 36,648 pl and 1,567 Bls of Country Liquor (CL), Indian Made Foreign Liquor (IMFL) and beer during transit, storage and issue from wholesale vends. The Excise officers viz. ETO/ETI had not verified the breakage either in the registers maintained by licensees or in any other records and breakage claimed by these licensees had been taken as such. In the absence of any norms and physical verification of breakage by Excise Officer, deduction on this account was irregular. This resulted in loss of excise revenue on account of license fee to the tune of ₹1.83 crore⁵. It was observed in audit that copies of the records submitted by wholesale licensees (L-1 and L-13) were not available in any of the six AETCs.

On this being pointed out, the Department stated (September 2017) that in view of no provision in HP liquor License Rule 1986; the wastage of 0.50 *per cent* was allowable as per PDR, 1932. The reply is not acceptable as concerned Excise Officers allowed the wastage as claimed by licensees without verification.

Compliance Deficiencies

3.3.10 Fixation of quota of vends

The ETC-cum-Financial Commissioner, Himachal Pradesh, reserves the right to sell all or any of the licenses or predetermined combination of vends termed as 'unit' by allotment or by auction or by private contract or by calling tenders or by negotiations or by draw of lots or by renewal or by any other arrangement in the interest of the revenue.

As per clause 4.1 of the Excise Announcement (EA), Minimum Guaranteed Quota (MGQ) and the District wise quota shall be allotted for each vend at the District by the concerned AETC/Excise and Taxation Officer, in-charge of the District in consultation with the Collector (Excise) of the concerned Zone. However, while distributing the quota of CL & IMFL to various units/vends at the District Level, the concerned Collector (Excise) and AETC of the District in-charge shall ensure that the quantity of additional quota of CL & IMFL lifted by a particular unit/vend up to preceding March is also included in the figures of the quota of each unit/vend. Annual license fee of a particular vend is based on the MGQ of CL & IMFL fixed for vend for whole of the year on the rates of license fee of that year.

Audit scrutiny of records of AETC Sirmour for the period 2015-16 revealed that lesser quota of liquor (CL and IMFL) was allotted as compared to lifted quota of previous year (i.e. 2014-15) in 19 vends, without any justification even when these vends lifted the allotted MGQ in previous four years. Thus, short allotment of quota to 19 vends *vis-a-vis* its potentiality had resulted in short levy of annual license fee by ₹3.23 crore.

⁴ L-1: wholesale vend of IMFL and L-13: wholesale vend of CL

⁵ Mandi: ₹83.00 lakh, Nurpur: ₹38.00 lakh, Sirmour: ₹52.00 lakh and Una: ₹10.00 lakh

Further, allotment of quota of 10 other vends of Sirmour was fixed lower against the potential of these vends at 60,643 Pls (CL) and 66,568 Pls (IMFL) in 2015-16 as against the Quota of 75,278 Pls (CL) and 93,426 Pls (IMFL) during the previous year i.e. 2014-15. But perusal of lifting and consumption statements of these vends revealed that the licensees of these 10 vends had subsequently lifted additional quota of 1,602 Pls (CL) and 1,305 Pls (IMFL) during 2015-16 at concessional rates. Thus, short allotment of initial quota to 10 vends resulted in short levy of annual license fee by ₹89.00 lakh.

On this being pointed out, the Department stated (September 2017) that 19 vends could not be allotted at District level due to non-receiving of appropriate bid/tender as per quota/license fee fixed by the Headquarter and after negotiation at the Headquarter level the quota/license fee was fixed. Further, IMFL quota was increased while CL quota was reduced at Headquarters due to allotment of vends by negotiation in Sirmour District. The reply is not acceptable as justification for reduction of quota in respect of 29 vends (19+10) was not offered.

3.3.11 Excess lifting of quota

As per clause 4.4 of EA for the year 2015-16, the license fee of a vend/unit/units is predetermined on the basis of allotted quota. The additional quota is granted after lifting of allotted quota on payment of the prescribed license fee as per clause 4.6 of EA.

Audit scrutiny of annual statements furnished to ETC by five AETCs, out of test checked six AETCs, revealed that licensees of 73 vends out of 477 vends test checked, had lifted quota 10,44,627 Pls against the allotted quota of 9,53,864 Pls during 2015-16. However, the license fee was paid on the basis of amount predetermined on the basis of quota and no additional amount was paid on excess lifting of quota. The license fee on excess lifting of quota was neither demanded by the Department nor the licensees paid as per M-2 register⁶. This resulted in loss of revenue on excess lifting of quota of 90,764 Pls (CL 48,080 Pls and IMFL 42,684 Pls) on account of license fee to the tune of ₹1.82 crore⁷.

On this being pointed out, the Department stated (September 2017) that the difference between quota lifted and quota allotted may occur on account of conversion of quota of CL into IMFL and *vice-versa*. Further AETC Solan had recovered ₹0.61 lakh, out of ₹26.41 lakh and AETC Baddi had issued directions to recover the amount.

3.3.12 Suspected pilferage of revenue due to excess consumption than lifting

The MGQ of CL and IMFL is fixed in proof liters by the Government for the State. It is further allotted for each vend at the District Level by the respective AETCs of the District. As per Para 4.3 of EA 2015-16, a licensee is required to pay annual

⁶ A register showing the details of license fee realised from vends.

⁷ Baddi: ₹46.00 lakh, Mandi: ₹34.00 lakh, Sirmour: ₹58.00 lakh, Solan: ₹26.00 lakh and Una: ₹18.00 lakh

license fee fixed on the basis of monthly MGQ. Para 4.4(a) provides that the annual license fee of a particular vend shall be predetermined based on the MGQ of CL and IMFL fixed for each year on prescribed rates of licensee fee. The license fee shall be divided into 12 monthly instalments and the licensee shall deposit into the Government treasury by the last day of each month.

The quota of a vend is lifted as per Excise passes issued by Excise Officer who ensures that quota of liquor is lifted as per allotment. The consumption of liquor in vend is submitted by the licensee brand wise on monthly basis to the excise officer in whose jurisdiction the vend is situated. Thereafter, lifting and consumption statement in respect of each vend is submitted on monthly basis by Excise Officer to the concerned District and the consolidated lifting and consumption statement of the District is submitted to the ETC.

Audit noticed that in three AETCs, 45 licensees, out of 114 licensees test checked, consumed 41,33,098 Pls of liquor (CL and IMFL) against the lifting of 41,15,083 Pls made by them during the year 2015-16. Thus, they had made consumption (sale) of 18,015 Pls in excess of the lifted quota. Reasons though asked for, were not provided. Thus, excess procuring and consumption of 18,015 PLs of liquor by 45 licensees resulted in revenue loss of ₹34.54 lakh⁸ on account of non-levy of license fee.

On this being pointed out, the Department intimated (September 2017) that AETC Solan had recovered ₹0.34 lakh whereas AETC Baddi and Nurpur directed the concerned ETIs to reconcile the consumption and recover the amount.

3.3.13 Short recovery of License fee

As per Para 4.3 of EA 2015-16, a licensee is required to pay annual license fee fixed on the basis of monthly MGQ. Para 4.4(a) provides that the annual license fee of a particular vend shall be predetermined based on the MGQ of CL and IMFL fixed for each year on prescribed rates of license fee. The license fee shall be divided into 12 monthly instalments and the licensee shall deposit into the Government treasury by the last day of each month. The last instalment for the month of March shall be paid in full by 15th of March before obtaining the excise pass for issue of liquor. Further, as per Para 4.5(a), the licensee shall pay interest on the amount which remain unpaid at the rate of 14/18 *per cent* per annum for a delay of upto one month/for period beyond one month.

Section 73(2) of the H.P. Excise Act, 2011 provides that all excise revenue including all other amount due to the State Government which remain unpaid after the due date shall be recoverable as arrear of land revenue (ALR) under the provisions of the HP Land Revenue Act, 1954.

Audit noticed that in AETC Mandi (one vend) and Una, licensees of eight vends deposited license fee of ₹47.09 crore against the predetermined annual license fee

⁸ Baddi: ₹6.34 lakh, Nurpur: ₹24.99 lakh and Solan: ₹3.21 lakh

of ₹57.10 crore for the year 2015-16 resulting in short realisation of license fee amounting to ₹10.01 crore⁹. Besides, interest of ₹1.91 crore had also accrued on unpaid amount up to the date of audit (April 2017).

These cases were required to be declared as ALR under the H.P. Excise Act, 2011. Audit scrutiny revealed that AETC Una had declared ₹9.55 crore as ALR in eight vends out of total 10 units, whereas AETC Mandi had not declared the recovery of license fee as ALR. Further, the Department had created red entry in one unit only and red entry was yet to be made in remaining seven units of Una.

On this being pointed out, the Department stated (September 2017) that in case of unpaid amount; the same was declared as arrears under ALR with creation of red entry in the revenue record of defaulter. The reply is not acceptable as red entries in revenue papers of the defaulters were yet to be made in seven units out of eight units involved in Una District.

3.3.14 Non-levy of additional fee on short lifting of Minimum Guaranteed Quota

The MGQ of CL and IMFL is fixed in proof liters by the Government for the State. It is further allotted for each vend at the District Level by the respective AETC of the District.

Para 4.3 of the EA 2015-16 stipulates that each licensee shall be required to lift the MGQ as fixed for each vend on quarterly basis, failing which he shall still be liable to pay the license fee fixed on the basis of the MGQ. In addition, the licensee shall also be liable to pay additional fee of ₹10 per Pl on CL and ₹56 per Pl on IMFL on un-lifted quota which falls short of 100 *per cent* of MGQ. Further, penalty shall be leviable at the rate of ₹7 per Pl on CL and ₹14 per Pl on IMFL on un-lifted MGQ, falling short of benchmark of 80 *per cent* of MGQ. The AETC or ETO in-charge of the District shall review the position of lifting of MGQ on quarterly basis and ensure recovery of the additional license fee as well as the amount of penalty on un-lifted MGQ.

Audit scrutiny of the records revealed that in five AETCs, licensees of 358 vends out of 529 vends test checked, had lifted 63,02,880 Pls of liquor against the fixed MGQ of 78,14,755 Pls, which was short by 15,11,875 Pls (CL 7,67,376 Pls and IMFL 7,44,499 Pls) during 2015-16. The additional fee of ₹4.94 crore¹⁰ payable on short lifting of MGQ was neither paid by these licensees nor was demanded by ETD, resulting in loss of revenue of ₹4.94 crore.

Audit further noticed that out of 358 vends, 24 licensees had also not lifted 3,37,822 Pls, which fell short of benchmark of 80 *per cent* of MGQ for 2015-16 on

⁹ Mandi: one case: ₹5.00 lakh and interest: ₹0.98 lakh and Una: eight cases: ₹9.96 crore and interest: ₹1.90 crore

¹⁰ Baddi: Additional fee: ₹29.70 lakh, Mandi: Additional fee: ₹1.01 crore, Sirmour: Additional fee ₹9.27 lakh, Solan: Additional fee ₹40.56 lakh and Una: Additional fee ₹3.13 crore

which penalty of ₹40.70 lakh was required to be levied but the same was also not levied/demanded from the licensees.

On this being pointed out, the Department stated (September 2017) that cases were under process. Further, AETC Solan had recovered an amount of ₹5.69 lakh and outstanding amount had been declared ALR in Una District.

3.3.15 Non-realisation of interest on belated payment of license fee

Para 4.4(d) of EA 2015-16 stipulates that if a licensee is unable to lift MGQ within a month, he shall be required to pay the full instalment of license fee for that month by the last day of the month, and fee for the month of March shall be paid in full by the licensee by 15th March. Para 4.5(a) further provides that if the licensee fails to pay the deficient amount of license fee on due dates, interest at the rate of 14 *per cent* per annum up to one month and 18 *per cent* per annum thereafter shall be leviable.

Audit scrutiny of records of six AETCs revealed that licensees of 160 vends out of 348 vends deposited licensee fee of ₹80.76 crore after due dates between April 2015 and June 2016 with delays ranging between 1 to 385 days. They were, therefore, liable to pay interest of ₹1.44 crore on belated payment of license fee but the concerned AETCs had not demanded the same.

On this being pointed out, the Department stated (September 2017) that directions for recovery of interest as per prescribed conditions had been issued.

3.3.16 Non-levy of excise duty on Extra Neutral Alcohol

Section 23 of Punjab Excise Act, as applicable to State of H.P. provides that no intoxicant shall be removed from any distillery, brewery, warehouse or other place of storage established or licensed under this Act, unless the duty if any payable under Chapter-V has been paid or a bond has been executed for payment thereof. Further, Chapter 5.2 of H.P. EAs for the year 2011-12 to 2015-16 had prescribed the rates of excise duties on Extra Neutral Alcohol (ENA) at the rate of ₹10.00 to ₹11.00 per Bl.

Audit test checked the records of three distilleries of AETCs manufacturing ENA for the period 2011-12 to 2015-16 and noticed that 3,66,95,631 Bls of ENA had been produced by these distilleries in HP but no duty had been paid to Government resulting in non-recovery of revenue of ₹18.29 crore.¹¹

3.3.17 Non-levy of excise duty on export of beer

Section 36 of HP Excise Act, 2011 provides that there shall be levied and paid excise duty or the countervailing duty, as the case may be, at such rate or rates as the State Government may, by notification direct on any alcoholic liquor for

¹¹ Baddi: M/s Sabchhus Distillery: ₹2.07 crore, Nurpur: M/s Premier Alcovev: ₹2.01 crore and Una: M/s Rangar Breweries Ltd. ₹14.21 crore

human consumption whether imported, exported or transported in accordance with the provisions of Section 21 of the *ibid* Act.

Audit scrutiny of the records of AETC Sirmour revealed that 3,151 sanctions of export of beer were issued to one of the brewery during the period 2014-15 and 2015-16 involving 72,47,199 BIs of beer after recording necessary entries in column 1 to 10 of the prescribed L-36 register¹². However, no excise duty was levied on the beer exported which was leviable on removal from the factory. This resulted in non-levy of excise duty on export of beer amounting to ₹8.46 crore on the basis of applicable rates of excise duty.

On this being pointed out, the Department stated (September 2017) that notices had been issued to the concerned brewery to produce the relevant record.

3.3.18 Irregular adjustment of D-2A/BWH-2 license fee in bottling fee

D-2 licenses are granted for manufacture of CL and IMFL and D-2A for establishment and working of Pot-Still for re-distillation of spirit respectively. Similarly, BWH-2 license is granted for establishment of Bonded Ware House on the payment of prescribed fee. ETC notified (March 1994) that in case of D-2 license, the licensee shall first adjust the amount paid by the licensees, in advance, and the payment of license fee shall thereafter be according to the rates prescribed by the Government. ETC in July 2006 had also clarified that D-2A license is granted only for double distillation of spirit to make spiced CL and no other activities are covered under this license. The licensee can bottle only when he possesses the BWH-2 license and in that case the bottling fee is linked with BWH-2 for the purpose of calculation. Thus, license fee of D-2A and BWH-2 licenses is not adjustable against bottling fee.

Scrutiny of records revealed that 13 distilleries/bottling plants under six AETCs paid bottling fee of ₹26.80 crore against ₹29.40 crore actually due after adjusting ₹2.60 crore paid on account of license fee of D-2A and BWH-2 licenses, which was not admissible as per the instructions issued in July 2006. The Department did not raise claim on concerned distilleries/bottling plants towards irregular adjustment of license fee of D-2A and BWH-2 licenses.

On this being pointed out, the Department stated (September 2017) that bottling fee on CL and IMFL was adjustable against the annual license fee for D-2A/BWH-2 as per Rule 5 and 9.5 of PDR, 1932. The reply was not acceptable as it was contrary to instructions issued by ETC in July 2006.

3.3.19 Non recovery of license fee on unsold stock of liquor

Para 3.19 of the EA 2015-16 stipulates that in case of renewal of license of a vend/unit, the unsold stock of liquor up to three *per cent* of MGQ of the preceding year i.e. 2014-15, shall not be accounted towards the MGQ for the year 2015-16

¹² A register in which the approval of the Authority sanctioning order of export is recorded.

and the licensee shall have to take this unsold stock on payment of license fee at the rate of 50 *per cent* as prescribed for the year 2015-16. The unsold stock of liquor in the vend as on 31st March 2015 exceeding three *per cent* of the MGQ of the preceding year shall be counted towards the MGQ for the next year and license fee shall be charged on that stock at the prescribed rate.

Test check of records of the six AETCs for the year 2015-16 brought out that licensees of 126 vends out of 441 vends, had not accounted for the unsold stock of 26,258 Pl of liquor (CL: 10,567 Pl and IMFL: 15,691 Pl) of 2014-15. The license fee of ₹35.82 lakh¹³ was payable at the rate of 50 *per cent* of applicable license fee¹⁴ for the year 2015-16. The license fee was neither deposited by the licensees nor demanded by ETD. This resulted in non-recovery of license fee of ₹35.82 lakh.

On this being pointed out, the Department stated (September 2017) that concerned AETCs were directed to reconcile the account of licensees.

3.3.20 Non-issue of passes by Excise and Taxation Department

The EA for the year 2014-15 fixed total CL quota of 2,00,80,700 PLs each year out of which 18 *per cent* quota was earmarked in favour of two plants of Himachal Pradesh General Industries Corporation (HPGIC) Ltd. plants at *Mehatpur* and *Parwanoo*. The Excise Policy mandates that if the minimum quantity fixed by the Excise and Taxation Department is not sold, additional fee of ₹5 per Pl and penalty of ₹7 per Pl will be levied on the manufacturer.

Audit observed that HPGIC Ltd. failed to deliver 4,41,649 Pls of CL in different Districts during the years 2014-15 in view of non-issue of monthly passes by ETO/ETI equivalent to earmarked 18 *per cent* quota on monthly basis. Thus, additional fee of ₹22.08 lakh and penalty of ₹30.92 lakh was leviable on HPGIC Ltd. due to non-delivery/sale of earmarked quota. Besides, ETD suffered loss of VAT on the shortfall in sale of earmarked quota by HPGIC Ltd.

On this being pointed out, the Department stated (September 2017) that directions for initiating actions for non-compliance to Condition 10.29 read with Condition 6.10 of E.A. 2014-15 had been issued.

3.3.21 Non-recovery of Annual License fee for non-opening of L-13 vends

Para 6.10 of the EA 2014-15 and 2015-16 stipulates that CL suppliers/distilleries were required to open an L-13 vends (wholesale vend) in each of the Districts allotted on payment of license fee of ₹2.30 lakh and ₹2.65 lakh per vend respectively. It further provides that those CL suppliers who have opened L-13 vends during 2014-15 in those Districts which were not allotted to them during

¹³ Baddi: 33 vends: ₹8.21 lakh, Mandi: 23 vends: ₹0.29 lakh, Nurpur: 31 vends: ₹1.06 lakh, Sirmour: 13 vends: ₹2.69 lakh, Solan: 21 vends: ₹4.03 lakh and Una: 5 vends: ₹19.54 lakh

¹⁴ IMFL: ₹243/2 per Pl and CL: ₹162/2 per Pl

2014-15 shall have to compulsorily open these L-13 vends during the year 2015-16 also, as the same have been made 'allotted' Districts during the year 2015-16.

Audit test checked the records of L-13 vends of six AETCs and found that in four AETCs, six CL suppliers had not opened 19 vends out of the 37 vends allotted during the period 2014-16 inclusive of three CL suppliers who had opened three vends during 2014-15 but did not open the vends during 2015-16. The Annual license fee of ₹48.95 lakh¹⁵ was recoverable in respect of these 19 vends, which was not demanded by the Department from concerned CL suppliers.

On this being pointed out, the Department stated (September 2017) that all District in-charges had been directed to verify non-opening of L-13 vends by CL manufacturers in the allotted District.

3.3.22 Short recovery of bottling fee, Franchise fee and interest

Para 5.1(30) of the EA 2015-16 provides that bottling fee at the rate of ₹1 per unit of 750 mls of IMFL and ₹0.80 per unit of 750 mls of CL shall be payable in case of bottling of CL and IMFL by the distillery licensees. Under Clause 30 of the EA, Franchisee fee at the rate of ₹7 per Pl on the bottling of IMFL of other distilleries and bottling plants situated outside the State was also leviable. Clause 4.5(a) further provides that if the licensee fails to pay the fee or part thereof on due dates, interest at the rate of 14 *per cent* upto one month and thereafter at the rate of 18 *per cent* per annum, shall be payable till the default continues from the date of default.

(i) Test check of 16 distilleries and bottling plants revealed that bottling fee for bottling of 5,21,331 units (4,61,484 units of CL and 59,847 units of IMFL) for the period 2015-16 aggregating to ₹4.29 lakh was not paid by one distillery¹⁶ of Sirmour. Audit further noticed that the above licensee had not paid franchisee fee on 44,885 Pls of IMFL amounting to ₹3.14 lakh. This resulted in non-recovery of license fee/franchisee fee of 7.43 lakh.

(ii) Test check of four AETCs¹⁷ revealed that in seven distilleries, bottling fee of ₹2.51 crore for the year 2015-16 was payable between July 2015 and April 2016 but was deposited between September 2015 and March 2017 by these licensees. The delay ranged between 2 to 378 days on which interest of ₹5.51 lakh was also leviable. Further, five distilleries in three AETCs, deposited Franchisee fee of ₹3.72 crore for the year 2015-16 payable between July 2015 and March 2016 with delay ranging between one to 363 days on which interest of ₹6.07 lakh was leviable. The Department did not raise any demand for interest on delayed

¹⁵ Baddi: ₹13.25 lakh, Mandi: ₹2.65 lakh, Nurpur: ₹7.95 lakh and Sirmour: ₹25.10 lakh

¹⁶ Sirmour: Bottling fee: ₹4.29 lakh and Franchisee fee: ₹3.14 lakh

¹⁷ Baddi, Mandi, Nurpur and Sirmour

payment of bottling and franchise fee resulting in non-recovery of interest ₹11.58 lakh¹⁸.

On this being pointed out, the Department stated (September 2017) that District in-charges had been directed to take immediate necessary action against the defaulters.

3.3.23 Non/short recovery of salaries of excise staff posted at distillery/bonded warehouses

Rule 9.13 and 9.16 of the PDR 1932, as applicable to Himachal Pradesh, stipulates that the licensee shall agree to the posting of a Government Excise Establishment to his distillery for the purpose of ensuring the due observance of the Rules and for watch and ward. The licensee shall, if required, by the Excise Commissioner, make into the Government treasury such payment as may be demanded on account of the salaries of the Government Excise Establishment posted to the distillery, but he shall not make any direct payment of any member of such establishment.

Test check of two bottling plants with that of concerned AETCs¹⁹ revealed that salaries amounting to ₹21.98 lakh of the posted excise establishment during the year 2015-16 were not demanded by the ETD, resulting in non-recovery of Government dues.²⁰

On this being pointed out, the Department stated (September 2017) that AETC Mandi had issued notice for depositing salaries of excise staff whereas distillers of AETC Sirmour had adjusted the same against payment of BWH-2 license fee. The reply is not accepted as the Rules do not provide for adjustment of BWH-2 license fee.

3.3.24 Non-accountal of samples for re-distillation

Rule 9.17 of PDR, 1932 stipulates that the licensee shall when required permit samples of materials used or spirit prepared in the distillery to be taken for analysis. Each sample shall be taken in three-quart bottles or (when the materials cannot be placed in bottles) in three parcels, in the presence of the licensee or a responsible representative deputed by him for this purpose. One bottle or parcel shall be made over to the licensee's representative, the second shall be sent for chemical examination and the third retained by the officer concerned pending the disposal of the case. Further, rule 9.40 (1) provides that all spirit, which becomes waste in the laboratory and does not by addition of any chemicals or otherwise become deleterious, shall be returned to the distillery for re-distillation.

¹⁸ Baddi: M/s Sabchhus distillery Bottling Fee: ₹0.72 lakh, Franchise Fee: ₹0.38 lakh, M/s Himalayan Gold: Bottling Fee: ₹0.71 lakh, Franchise Fee: ₹3.91 lakh, M/s Ricord Pernod Franchise Fee: ₹0.14 lakh, Mandi: M/s Basandh Rai Bottling Fee: ₹0.65 lakh, Franchise Fee: ₹0.21 lakh, Nurpur: M/s VRV Foods Bottling Fee: ₹1.60 lakh, Franchise Fee: ₹1.43 lakh and Sirmour: M/s Hill View Bottling Fee: ₹0.64 lakh, M/s Yamuna Brewery: Bottling Fee: ₹0.60 lakh, M/s Trilok Sons: Bottling Fee: ₹0.59 lakh

¹⁹ Mandi and Sirmour

²⁰ Mandi: Bottling Plant: ₹8.76 lakh and Sirmour: Bottling plant: ₹13.22 lakh

Scrutiny of the records of seven distilleries/bottling plants of four Districts revealed that out of 27,804 samples of CL and IMFL, 18,536 samples (15,823 of 750 ML each upto 2014-15 and 2,713 of 180 ML during 2015-16) aggregating to 8,035 Pls²¹ of CL and IMFL were required to be taken back for re-distillation. These were, however, neither returned back for re-distillation nor these samples were separately preserved in the records of distilleries/bottling plants, resulting in non-realization of excise levies of ₹16.99 lakh²² (excise duty: ₹2.07 lakh and license fee: ₹14.92 lakh).

On this being pointed out, the Department stated (September 2017) that district in-charges had been directed to verify non-accountal of samples for re-distillation.

3.3.25 Short accountal of spirit

As per PDR, 1932 all imports of ENA/RS/MMS etc. are required to be entered in the receipt register i.e. D-13A²³. After that blending, bottling and issue takes place as per quantity imported and duly accounted for.

Scrutiny of the records of AETC Baddi, revealed that one distillery²⁴ accounted for 6,554 Bls of rectified spirit in its D-13A register during June 2015 against the purchase of 10,000 Bls of confiscated rectified spirit through Police Station, Parwanoo. No reasons for the short accountal of rectified spirit were found on the records of the distillery. Short accountal of 3,446 Bls of rectified spirit resulted in short levy of excise levies of ₹8.59 lakh (consisting of excise duty ₹0.56 lakh, bottling fee ₹0.10 lakh and license fee ₹7.93 lakh).

On this being pointed out, the Department stated (September 2017) that directions had been issued to recover the excise levies.

3.3.26 Irregular renewal of distillery license

Audit observed that license of one distillery under Sirmour District was renewed for the period up to 31st March 2017 in-spite of ₹89.54 lakh recoverable from the distillery on account of (VAT ₹56.18 lakh, Franchisee Fee ₹3.52 lakh, bottling fee of ₹10.98 lakh (4th Qtr of 2015-16 and 1st Qtr of 2016-17), staff salary of ₹14.87 lakh and penalty of ₹3.99 lakh). The proposal for renewal of license of the distillery was recommended (November 2016) by the AETC Sirmour on the ground that the licensee submitted 10 postdated cheques for arrears with a promise that he will clear the postdated cheques and pay all current liabilities of VAT, Excise duty and fee etc. timely. In case of failure, action as per law may be taken. Incidentally another penalty of ₹69.51 lakh was stayed by the Hon'ble High Court. AETC Sirmour did not provide the details of amount recovered from the distillery in its reply as well.

²¹ Conversion formula: IMFL: 750 ml=0.5635 Pl and CL: 750 MI=0.375 Pl

²² Baddi: M/s Sabchhus Distillery ₹0.79 lakh, M/s PDM: ₹0.52 lakh, M/s USL: ₹3.03 lakh
M/s Ricord Pernod: ₹10.82 lakh Mandi: M/s Basandh Rai ₹0.47 lakh, Nurpur: M/s VRV Foods
₹0.48 lakh and Sirmour: M/s Yamuna Brewery ₹0.88 lakh

²³ Register showing the details of spirits received in the distillery.

²⁴ M/s Sabchhus Distillery, Nalagarh

In the case of another distillery under Sirmour District, the license of the distillery was renewed for 2016-17 in spite of VAT amounting to ₹1.94 crore for 2006-07 to 2008-09, bottling fee of ₹11.64 lakh (1st and 2nd Quarter of 2016-17) and staff salary of ₹4.33 lakh, aggregating to ₹2.10 crore pending for recovery from the distillery.

Thus, licenses of two distilleries were renewed in spite of non-clearance of Departmental dues and the same were not blocked or cancelled. AETC Nahan did not initiate action to recover the amount of VAT arrears of ₹1.94 crore pertaining to assessment years 2006-07 to 2008-09 as arrears of land revenue under Section 25 of the HP VAT Act, 2005.

On this being pointed out, the Department stated (September 2017) that the case of one distillery had been decided by Hon'ble High Court of HP and directed to pay ₹5.00 lakh per month to clear the dues whereas the other distillery deposited all the dues. The reply is not accepted as distillery licenses were renewed on compliance of certain conditions but there was no mechanism to monitor the recovery of pending dues from the licensees.

3.3.27 Shortage of holograms

Rule 9.37 of PDR provides that a licensee shall on the 1st and 15th day of each month, report to the ETI, the quantity in stock of empty bottles in gross numbers and shall permit the ETI to verify the quantity, if he desires to do so. EA 2014-15 vide clause 6.4(b) made the provision of affixing pilfer proof seals/holograms on CL bottles. The holograms are obtained from Excise and Taxation Commissioner by distilleries/bottling plants and an account of receipt and issue of Holograms is maintained in Hologram Stock Register by the ETI posted in distillery.

Audit scrutiny revealed that in a distillery in Baddi closing balance of 9,10,098 Holograms in September 2014 was carried forward as 7,10,098 resulting in shortage of 2,00,000 holograms in the distillery²⁵. This was fraught with mis-utilisation of 2,00,000 CL bottles, which could bottle 75,000 PLs of CL attracting excise duty of ₹9.10 lakh.

On this being pointed out, the Department stated (September 2017) that directions had been issued to enquire the matter.

3.3.28 Ineffective control through excise barriers

In order to curb interstate smuggling of liquor and illicit distillation in the State, ETC issued instructions in 1998 wherein excise staff posted in all Multi-Purpose Barrier (MPBs) were directed to maintain 'Excise Check Registers' (ECR) containing full particulars of the consignments of liquor viz. original documents, proper route of transportation, complete details of the permit no., pass no., validity period, name of the distillery and name of consignee etc.

²⁵ A distillery of Baddi

Audit scrutiny of four MPBs revealed that ECRs had been maintained without entering full particulars of the consignments and the entries recorded therein were not clearly legible. Test check of the 502 export consignments of a brewery in Sirmour District during the period 2012-13 to 2015-16 revealed that 26 consignments carrying 1,30,816 Bls of beer were not found entered in ECRs maintained at MPB *Govindghat* and *Behral* involving excise duty of ₹21.70 lakh.

The ECR of MPB, *Parwanoo* was not produced to audit. Incidentally, the entire export of beer made from the brewery²⁶ under the jurisdiction of Solan District passed through this barrier, which could not be verified.

On this being pointed out, the Department stated (September 2017) all the MPBs in-charge had been directed to maintain the proper legible 'ECRs' at MPBs. Specific reply to cases of Sirmour district is awaited.

3.3.29 Irregularities in maintenance of records of distilleries

As per Rule 9.13 of PDR 1932, distillery shall agree to the posting of Government excise establishment for the purpose of ensuring the due observance of the Rules and for watch and ward. Test check of the records of 16 distilleries revealed that:

- i. excise staff on single charge basis was not posted or were transferred frequently, in most of the distilleries of Sirmour and Nurpur District;
- ii. ETIs posted in most of the distilleries were not well versed/adequately trained in the working of distilleries, which severely hampered the maintenance of the records and/or supervision of their activities and
- iii. maintenance of records in most of the distilleries was not proper and adequate, which handicapped proper scrutiny of the activities of the distilleries in audit.

3.3.30 Medicinal and Toilet Preparations

Under the Constitution of India, levy of excise duty on alcoholic liquors, opium, Indian hemp or other narcotic drugs is a State Subject. But medicinal and toilet preparations containing alcoholic and other items mentioned above and levy of excise duty thereon is Union Subject. Accordingly, the M&TP Excise Act, 1955 and Rules of 1956 thereunder provide for levy and collection of excise duty on medicinal and toilet preparations containing alcohol, opium, Indian hemp or other narcotic drug or narcotic. The duty levied is collected and appropriated by State Government through State Excise Department.

For the manufacture of medicinal and toilet preparations, the manufacturers are required to obtain license from State Excise Department under the Act and obtain spirit from distilleries/bonded warehouses in the State or from outside the State, but supplies are made in such quantities as are in conformity with the formulae of the concerned preparations. The manufactories are classified as "Bonded and Non

²⁶ A distillery of Solan

Bonded”. The bonded manufactory means the premises or any part of the premises approved and licensed for the manufacture and storage of medicinal and toilet preparations containing alcohol, opium, Indian hemp and other narcotic drugs or narcotics on which duty has not been paid. In other words, the bonded manufactories obtain spirit without payment of duty and are required to pay the same as when the medicines containing alcohol, spirit etc. are released from these warehouses. The ‘Non-Bonded manufactories’ means the premises or any part of the premises approved and licensed for the manufacture and storage of medicinal and toilet preparations containing alcohol, opium, Indian hemp and other narcotic drugs or narcotics on which duty has been paid.

Every person desiring to engage in operations of manufacture of Medicinal and Toilet Preparations is required to obtain a license from the licensing authority to be renewed every year on payment of prescribed fee. Possession of the license under the Drug Act, 1940 is a pre-requisite for grant of license under M&TP Act of 1955.

3.3.30.1 Incomplete data of revenue collection

- i. On being asked in audit, ETD provided a list of 105 licensees of seven Districts²⁷, out of which 54 licensees renewed their licenses during the year 2016-17 and remaining 50 (exclusive of one licensee which was cancelled) did not renew their licenses. The status of renewal of licenses during the previous four years was not made available either by ETD or by the District offices. Further, records containing details of such licensees were not maintained by the District offices, indicating failure of internal control mechanism.

On this being pointed out, the Department stated (September 2017) out of 105 licensees under M&TP Act licenses of 96 were renewed for the year 2016-17 and the renewal of balance licenses were pending.

- ii. On being asked about the verification made by ETD in respect of licensees manufacturing only those preparations which are specified in the license issued under M&TP Act and Drug Act no such records were produced. Thus, the status of non/short levy of excise duty could not be arrived at in audit.

ETD intimated excise collection of ₹74.60 crore during the year 2015-16 under M&TP Act, 1955 as part of revenue data of 2015-16 for implementation of GST. However, the ETD did not provide challan wise/party wise breakup of the excise collection under the M&TP Act, 1955.

- iii. On being asked in audit, about the revenue collection under this Act during the years 2011-12 to 2015-16, none of the Districts except Baddi provided the same. This reflected no revenue monitoring under this Act, is made by ETD. In the absence of District wise/party wise details of revenue

²⁷ Baddi, Kangra, Mandi, Nurpur, Sirmour, Solan and Shimla

collection, the accuracy/trend analysis of the revenue collection could not be made in audit.

- iv. Review of revenue collection made by Baddi District under the *ibid* Act during the years 2014-15 (₹56.27 crore) and 2015-16 (₹51.69 crore) revealed that revenue collection fell down by ₹4.58 crore during the year 2015-16 as compared to previous year for which no reasons though asked for in audit were provided by the Department.

On this being pointed out, the Department stated (September 2017) out of 105 license under M&TP Act, 96 licenses were renewed for the year 2016-17 and the renewal of balance licenses were pending. The reply is not accepted as in the absence of proper records, renewal of licenses during the period 2011-12 to 2015-16 could not be verified.

3.3.30.2 Loss of revenue due to non-recovery of excise duty

A team of flying squad (South Zone) *Parwanoo* conducted an inspection of the manufacturing unit under Rule 113 and 115 of the M&TP (Excise Duties) Rules, 1956 at Nalagarh on 24th November 2012 on the basis of specific information. The licensee is engaged in the manufacture of *Spray perfumes, de odorized spray* and *After Shave lotions* besides other cosmetic and toilet products. In the manufacture of *spray perfume, de odorized spray* and *After Shave Lotion*, a raw material (pre-mix compound) imported from outside the State is used which was suspected to contain alcoholic strength and as such inspection was done. The final products of the licensee are toilet preparations within the meaning of Section 2(k) of the M&TP Act, 1955 and hence were dutiable goods. Duties of excise under Section 3 of the *ibid* Act and Rule 6 of the M&TP Rules, 1956 are to be levied on them. Further, the products manufactured by the licensee were not rebated/exempted under Section 4 of the Act and Rule 7 or 8 of the Rules. On the basis of flying squad inspection, it emerged that:

- i. the manufacturer never applied for grant of a license which was a statutory obligation on the part of the manufacturer;
- ii. the manufacturer was importing pre-mix compound containing alcohol in high percentage which was not reported to the Department as required under the Act and Rules and
- iii. the manufacturer failed to pay the duties involved on these dutiable goods.

In view of the above irregularities, the manufacturer violated Section 6 of the Act and sub rule (1) of Rule 9 of the Rules. Accordingly, the DETC, Flying Squad (SZ), *Parwanoo* recommended (29 November 2012) to ETC for initiating penal action and recovery of duties evaded by the manufacturer since start of manufacturing of dutiable goods containing alcohol. It was also recommended for adjudicating the case under Rule 123 of the M&TP Rules, 1956. The ETC asked (January 2013) Collector (SZ), Shimla for detailed investigation of the case and detailed action taken report terming the activities of the manufacturer being in gross violation of the provisions of *ibid* Act.

Audit observed that Department failed to finalize the case and was arbitrarily transferred (November 2014) to Additional ETC (SZ) Shimla on the ground that manufacturer's counsel during final hearing held on 29th August 2014 pleaded that DETC (FS), *Parwanoo* did not have jurisdiction to dispose of this case and powers of the Commissioner lay with the Zonal in-charge or Collector, South Zone. However, the above order was factually incorrect as records of DETC (FS) revealed that licensee did not submit sale quantum of excisable commodities from 2009-10. It was recorded that order was reserved, to be released soon and intimated to the dealer.

On being asked in audit, Department replied (June 2017) that as the case was detected and reported by Flying Squad (SZ), same was transferred back (February 2015) in the interest of proper enquiry and scrutiny to DETC (FS). The case was yet to be finalized (August 2017).

Thus, failure of the Department to investigate and adjudicate the case led to revenue loss of ₹66.07 crore due to non-recovery of excise duty during the period 2011-12 to 2015-16. The loss would further go up on determination of GTO of 2009-10 and 2010-11, which was not available even on HIMTAS software of the Department. The licensee was not registered under M&TP Excise Act, 1955 even after detection in November 2012.

On this being pointed out, the Department stated (September 2017) that matter of investigation was pending before DETC (FS) *Parwanoo* who had been directed to dispose of the investigation on priority basis.

3.3.30.3 Inadmissible rebate of excise duty

Rule 97 of the M&TP Rules, 1956 provides that duty paid goods shall be exported under claim for rebate of duty. Rule 14 further provides that the collecting Government shall grant rebate of duty on dutiable goods, if exported out of India. As per Rule 103, the rebate of excise duty on export of goods is admissible subject to the fulfillment of certain conditions.

Scrutiny of records of AETC Una revealed that a licensee was engaged in the manufacture and export of Toilet Preparations (*Fogg* fragrance-body spray). The ETD allowed (February 2014 to November 2015) refund/adjustment of excise duty of ₹5.33 crore on the exports made by the firm. The refund/adjustment was to be allowed after proper verification of payment of amount with the original treasury receipts, and money being adjusted was actually deposited, money adjusted had not been adjusted earlier and there were no arrears against the licensee. However, compliance of such directions could not be observed from the records of AETC Baddi.

The State Government decided (March 2016) after consultation with the Law Department that rebate under M&TP Act is not admissible as exports were not made by manufacturer (licensee) but by the third party with whom the licensee had

entered into an agreement, which was void ab-initio. The State Government requested ETD to take further necessary action in this matter. Consequently, excise refund of additional ₹6.65 crore was not allowed by ETD. Thus, no action was initiated to recover the inadmissible rebate of ₹5.33 crore allowed prior to State Government clarification.

On this being pointed out, the Department stated (September 2017) that reversal of refund previously granted was being examined.

3.3.30.4 Non-conduct of chemical analysis of products of M&TP licensees

Under Rule 53 of M&TP (Excise Duties) Rules, 1956 Excise Officer in whose jurisdiction the manufactory is situated shall without previous notice to the manufacturer, take samples of not less than 13 *per cent* and not more than 15 *per cent* of the total number of medicinal and toilet preparations containing alcohol from the finished stocks, at least once every month and forward them to the Chemical Examiner for analysis. If the proof strength is more than 3 *per cent* proof spirit than the strength declared by the manufacturer on the labels pasted on such bottles, the manufacturer is liable to penalty at the rate of 10 times the difference in duty on the quantity so manufactured but not exceeding ₹2,000.

AETC Baddi in its reply confirmed that no chemical analysis of the products before their removal from the factory was carried out. The remaining two AETCs did not submit any reply regarding conduct of chemical analysis of the samples. Thus, the accuracy of imposition of excise duty on the basis of alcoholic strength of products manufactured was suspect.

3.3.30.5 Non-furnishing of returns by M&TP Units

Rule 41 and 56 of the M&TP Rules, 1956 provides that licensees shall maintain accounts in proper forms and registers and shall deliver to the office-in-charge, by the 5th of each month a return of transactions of business in respect of the preceding month in Form RT-1 and RT-2.

Audit test checked the records of AETC Baddi and observed that out of 62 registered licensees, only 11 licensees were furnishing the returns and making payment of excise duty. The remaining 51 firms were not furnishing returns.

On this being pointed out, the Department stated (September 2017) that District in-charges were directed to take immediate action for timely submission of returns.

3.3.31 Evasion of State Excise Duty

Scrutiny of records of State Excise Duty evasion cases detected by different Departmental/police authorities and their finalization depicted below:

Table-3.4 Evasion cases of State Excise Duty

Year	Opening balance	Cases detected	Total	Cases Decision/ additional demand		Closing balance of cases
				Cases	₹ in lakh	
2011-12	3	42	45	43	2.76	2
2012-13	11	1,174	1,185	1,140	1,71.00	45
2013-14	45	4,242	4,287	4,235	1,91.99	52
2014-15	52	275	327	284	49.34	43
2015-16	43	3,889	3,945	2,367	270.64	33
Total					685.73	

Source: Departmental figures

Scrutiny of the details furnished by different Districts/records of ETC revealed as under:

- i. There was no system in place to monitor the recovery of additional demand of excise duty raised on completion of investigation.
- ii. During 2015-16, on the basis of cases decided, the number of pending cases worked out to 1,578 against which only 33 cases were intimated as closing balance by ETC. The difference of 1,545 evasion cases was not clarified to audit.
- iii. Two cases detected on 28 July 2015 and forwarded to Collector Excise (CZ) were still lying un-disposed of despite lapse of nearly two years.

3.3.32 Refunds of State Excise duty

Rule 19.17 of Chapter XIX of the HP Financial Rules, 1971 dealing with remission or refunds of revenue provides for sanctioning refund of excise revenue wrongly collected, by ETC without any limit and by the DETC up to ₹1,500 in each case.

Scrutiny of the records of ETD revealed that refunds of State Excise duty were disbursed to different dealers as per following details:

Table-3.5 Refund of Excise Duty

Sr. No.	Name of District	Year	₹ in lakh
			Amount
1.	Shimla	2013-14	46.97
2.	Shimla	2015-16	35.64
3.	Kangra at Dharamshala	2013-14/2015-16	16.92
4.	Sirmour	2015-16	18.24
5.	Bilaspur	2011-12/2015-16	30.85
Total			148.62

Source: Departmental figures

Audit observed that refunds were granted towards license fee, renewal fee, basic license fee, annual fee, excess amount deposited, allotment not approved, allotment cancelled, wrong deposit of fee etc. in violation of the provisions of Rule 19.17 of the HPFR. Further, in case of Kangra, Sirmour and Bilaspur Districts, the name of sanctioning authority was also not on records. It was further observed in audit that Una District had granted refunds of ₹88.58 lakh even without the name of the dealers, date of sanction/ release of refund etc. during the year 2015-16 and as such the admissibility of refunds could not be checked. The system of proper verification of proof of deposit with original treasury receipts, no arrears outstanding against the licensees etc. before release of refunds was not existent.

On this being pointed out, the Department stated (September 2017) that concerned AETCs were directed to maintain requisite register of refund cases.

3.3.33 Internal Control

3.3.33.1 Internal Audit

Internal Audit being an effective tool of internal control should be so designed and operated in a manner that all internal control functions are working effectively. The success of the Internal Audit is dependent upon objectivity, coverage of different verticals/functions within the Department, adequate, qualified and trained manpower to undertake the internal audit functions, reporting mechanism and lastly the action taken notes on the findings of the internal audit. Though ETD issued (February 1987) procedure/guidelines for regulating the functioning of Internal Audit Wing at Headquarters under direct charge of the ETC.

Test check of selected AETCs/distilleries revealed that internal audit was mostly not undertaken in the field units. The internal audit mostly dealt with the replies to the Draft Paras/Action Taken Notes of Public Accounts Committee.

The ETC issued instruction (January 2015) for audit of all concern districts on regular basis due to detection of embezzlement of ₹73.00 lakh in Shimla District by Internal Audit of the Department.

Further, due to detection of embezzlement of ₹73.00 lakh, in Shimla District by internal audit wing of the Department, ETC issued instructions (January 2015) for audit of all revenue districts on regular basis.

Audit observed that AETC Baddi directed (February 2015) all the ETOs/ETIs to undertake reconciliation of deposit of monthly license fee/other levies by L-2 and L-14 Licensees²⁸ with the concerned Treasuries/e-kosh. However, no such reconciliation of the revenue could be inferred from the records of the Department/AETC offices. Thus, recurrence of fake/forged challans in support of payment of dues by licensees and consequent loss of revenue to the Department could not be ruled out in audit.

Further, the system of periodical reconciliation with the treasuries as well as with the Finance Accounts was also lacking in the Department, which resulted in significant variation in the Departmental revenue figures with those of Finance Account and instances of booking of non-SED revenue under SED revenue.

On this being pointed out, the Department attributed (September 2017) that this irregularity to shortage of staff and matter for deployment of staff was being taken up with the Government.

²⁸ L-2: Retail vend of IMFL and L-14: Retail vend of CL

3.3.33.2 Departmental inspections

The ETD prescribed monthly schedule for inspections of different field offices by the officers of the Department at each level. ETC also prescribed (September 2012) the norms for Departmental inspections of Distilleries, Breweries, Bonded Warehouses, Wineries and other manufactories under the M&TP Act on monthly basis for ETOs and inspection of premises/godowns of all the wholesalers in the District on monthly basis for ETOs and ETIs. Further, ETC issued directions (May 2015) for inspection of retail vends ensuring the sale of balance quantity and quality of liquor. ETD introduced the affixing of holograms on the liquor bottles and holograms testing kits with a view to ensure to genuineness of the holograms to rule out the adulteration of the liquor. The field offices were directed to inspect the liquor vends under their jurisdiction with hologram testing kits at least twice in every month and to submit the monthly report to ETC.

Test check of records revealed 52 inspections/surprise checking's only as against 1,890 inspection/surprise checking's required as per prescribed norms resulting in shortfall of 97.25 per cent in checking of distilleries/bottling plants as depicted in **Table-3.9**. Further record of checking of vends by AETCs/ETOs/ETIs was not available in all the AETC offices test checked in audit.

Table-3.6 Details of inspections carried out by Officers

Sr. No.	Name of Inspecting Officer	Inspections required	Inspection carried out	Shortfall
1.	ETO	840	13	827
2.	AETC	840	34	806
3.	DETC	210	05	205
Total		1,890	52	1,838

On this being pointed out, the Department stated (September 2017) that field officers were directed to inspect the liquor vends, distillery/bottling plants as per Annual Inspection Plan. The reply is not acceptable in view of persistent failure to carry out the required inspections by the officers as provided in Annual Inspection Plan.

3.3.34 Conclusion

State excise duty occupies an important place in contributing to the tax revenue of the State. The Government had not fixed norms of wastage in beer resulting in irregular/inadmissible claim of wastage by breweries. The system of issue of passes for lifting of quota to different vends/units on manually basis was defective in view of the instances of issue of passes in excess of the allotted quota without realisation of license fee there against. Besides, there was no co-ordination within the Department in respect of different revenue verticals as distilleries, breweries, bottling plants contribute to the revenue by way of VAT on the sale of liquor/beer, license fee, franchisee fee etc. Non-posting/frequent transfers of excise establishment in the distilleries, breweries, bottling plants, on single charge basis resulted in non-maintenance of requisite records of the activities being undertaken

there. There was significant shortfall in inspections/surprise checks by different departmental authorities which resulted in non-detection of evasion cases/other irregularities in the observance of the Rules. There was also lack of internal control mechanism regarding periodical reconciliation of the revenue details with the treasury, subsidiary records.

3.3.35 Recommendations

The Government may

- *fix production and wastage norms for production of spirit and beer to check the leakage of revenue;*
- *formulate a proper mechanism to monitor the cumulative passes issued to the licensees as compared to the liquor quota fixed for the State as a whole as well as for different vends/units through Excise Module;*
- *integrate the recoveries from distilleries, breweries, bottling plants under different revenue heads so as to safeguard its revenue;*
- *monitor the enforcement of M&TP Act effectively to realize the revenue to its full potential;*
- *enforce the instructions for periodic inspections to strengthen the internal control mechanism to ensure better compliance of instructions/Rules and*
- *set up a mechanism for reconciliation of recoveries from the licensees with Treasuries on monthly basis.*

Other audit observations

3.4 Renewal of licenses without payment of renewal fee

The Department renewed different licenses without payment of requisite renewal fee resulting in short recovery of ₹1.45 crore.

Para 3.4 (a & b) and Para 5 of EAs of 2013-14, 2014-15 and 2015-16 dealing with fixed license fee and renewal fee for retail/whole sale licensees holding liquor vends licenses, bars, distilleries etc. of CL, IMFL, BIO, B-II require payment of renewal fee for each vend as per prescribed rates on the basis of different slabs of value of vends, while filling application of renewal. The applicant/licensee shall also deposit 50 per cent of basic license fee and five per cent of annual license fee before submission of application for renewal and attach proof of such payment along with the application.

Audit scrutiny of statements of annual allotment of liquor vends and M-1 registers of AETC Hamirpur revealed that renewal fee of ₹2.36 crore was realized as against renewal fee of ₹3.81 crore due on account of renewal of different licenses during the years 2013-14, 2014-15 and 2015-16 as depicted below:

			₹ in lakh
Year	Renewal fee due	Renewal fee realized	Difference
2013-14	105.60	68.28	37.32
2014-15	133.98	76.53	57.45
2015-16	141.90	91.60	50.30
Total	381.48	236.41	145.07

Thus, AETC Hamirpur renewed licenses without ensuring receipt of entire renewal fee resulting in short deposit of renewal fee of ₹1.45 crore during above years. The Department did not initiate action to recover the renewal fee short deposited, resulting in short recovery of renewal fee of ₹1.45 crore.

The matter was reported to the Department and the Government in June 2017; their reply was awaited (December 2017).

3.5 Non-levy of additional fee and penalty on short lifting of Minimum Guaranteed Quota

Additional fee of ₹1.62 crore for short lifting of 4,86,054 proof liters of liquor by licensee of 532 vends was not levied. In addition, a penalty of ₹15.91 lakh was also leviable.

Para 4.3 of the EA 2015-16 stipulates that each licensee shall be required to lift Minimum Guarantee Quota (MGQ) of CL and IMFL as fixed for each vend failing which he shall be liable to pay license fee fixed on the basis of the MGQ. In addition, the licensee shall also be liable to pay additional fee of ₹10 per Pl on CL and ₹56 per Pl on IMFL on the un-lifted quota which falls short of 100 per cent of the MGQ. The licensee shall also be liable to pay penalty of ₹7 per Pl on CL and ₹14 per Pl on IMFL on the un-lifted quota of the liquor which falls short of the

benchmark of 80 per cent of the MGQ. The AETC or Excise and Taxation Officer (ETO) in-charge of the District shall review the position of lifting of MGQ on quarterly basis and ensure recovery of the additional fee as well as the amount of penalty on un-lifted MGQ.

Audit test checked the records of four AETCs²⁹ and noticed that licensees of 532 vends had lifted 85,57,780 Pl of liquor against the fixed annual MGQ of 90,43,834 Pl resulting in short lifting of MGQ by 4,86,054 Pl³⁰ (CL: 2,40,384 Pl and IMFS: 2,45,670 Pl) during 2014-16, on which additional fee of ₹1.62 crore was recoverable from the licensees of such vends. The AETCs or ETO in-charge of the Districts did not levy additional fee of ₹1.62 crore resulting in loss of revenue of ₹1.62 crore. Audit further noticed that lifting against MGQ was short of 80 per cent bench mark by 1,32,644 Pl in respect of 37 licensees. The penalty of ₹15.91 lakh was required to be levied on these licensees.

The matter was reported to the Department and the Government between November 2016 and March 2017; the Department intimated (September 2017) that an amount of ₹7.07 lakh had been recovered by AETC Shimla and efforts were being made to recover the balance amount whereas notices were being issued to the defaulters by the remaining AETCs. The reply of the Government was awaited (December 2017).

3.6 Non-levy of interest on delayed payment of license fee

Interest amounting to ₹33.31 lakh on delayed payment of license fee was not demanded by the Department from the licensees of 109 vends resulting in non-recovery of interest to that extent.

Para 4.4(d) of the EA 2015-16 stipulates that if a licensee is unable to lift the MGQ within a month, he shall be required to pay the full instalment of license fee for that month by the last day of the month and license fee for the month of March shall be paid in full by 15th of March. Further, Para 4.5 (a) of EAs 2014-15 and 2015-16 further provides that if the licensee fails to pay the amount of license fee on due dates, interest at the rate of 10 and 14 per cent per annum upto one month and 18 per cent per annum thereafter shall be leviable.

Audit scrutiny of records of four AETCs³¹ between September 2016 and April 2017 revealed that licensees of 109 vends had deposited license fee of ₹40.90 crore after due date between April 2014 and March 2016 with delay ranging between two and 370 days. They were, therefore, liable to pay interest of ₹33.31 lakh on belated payment of license fee. However, the concerned AETCs did not levy and

²⁹ Bilaspur: 226 vends: ₹13.24 lakh, Dharamshala: 22 vends: ₹11.02 lakh, Hamirpur: 202 vends: ₹22.40 lakh and Shimla: 82 vends: ₹1.15 crore

³⁰

<u>Liquor quota</u>	<u>CL</u>	<u>IMFL</u>	<u>Total</u>
MGQ monthly fixed	4381663	4662171	9043834
MGQ lifted	4141279	4416501	8557780
MGQ short lifted	240384	245670	486054

³¹ AETCs Bilaspur, Dharamshala, Hamirpur and Shimla

raise the demand for interest on concerned licensees. This resulted in non-recovery of interest amounting to ₹33.31 lakh³².

The matter was reported to the Department and the Government between November 2016 and March 2017; the Department intimated (September 2017) that an amount of ₹8.99 lakh³³ had been recovered by AETCs Hamirpur and Shimla and efforts were being made to recover the balance amount whereas notices were being issued to the defaulters by the remaining AETCs. The reply of the Government was awaited (December 2017).

3.7 Non-recovery of license fee on unsold stock of liquor

License fee of ₹10.13 lakh was recoverable in respect of 149 vends due to non-accountal of unsold stock of preceding year.

Para 3.19 of the EAs 2014-15 and 2015-16 stipulates that in case of renewal of license of a vend, the unsold stock of liquor upto 3 per cent of the MGQ of the preceding year i.e. 2014-15 in the vend, shall not be accounted towards the MGQ for the year 2015-16 and the licensee shall have to take this unsold stock on payment of license fee at the rate of 50 per cent as prescribed for the year 2015-16.

Test check of records of two AETCs³⁴ brought out that licensees of 149 vends had not accounted for the unsold stock of 9,859.28 Pl of liquor (CL: 3,944.17 Pl and IMFL: 5,915.11 Pl) of preceding year 2013-14 and 2014-15. The license fee of ₹10.13 lakh at the rate of 50 per cent of applicable license fee³⁵ for the years 2014-15 and 2015-16 was payable on unsold stock by the licensees. The license fee was neither demanded by the Department nor deposited by the licensees. This resulted in non-recovery of license fee of ₹10.13 lakh³⁶.

The matter was reported to the Department and the Government between November 2016 and March 2017; the Department intimated (September 2017) that ₹4.57³⁷ lakh had been recovered by AETCs Dharamshala (Kangra) and Shimla and efforts were also being made to recover the balance amount. The reply of the Government was awaited (December 2017).

³² AETCs Bilaspur: 35 vends: ₹8.86 lakh, Dharamshala: 25 Vends: ₹6.32 lakh, Hamirpur: 34 Vends: ₹11.36 lakh and Shimla: 15 Vends: ₹6.77 lakh

³³ Hamirpur: ₹4.47 lakh and Shimla: ₹4.52 lakh

³⁴ AETCs Dharamshala (Kangra) and Shimla

³⁵ License fee: 2014-15 IMFL: ₹219 & CL: ₹147 per Pl and 2015-16 IMFL: ₹243 & CL: ₹162 per Pl

³⁶ AETCs Dharamshala (Kangra): 88 vends: ₹4.80 lakh and Shimla: 61 vends: ₹5.33 lakh

³⁷ Dharamshala: ₹2.58 lakh and Shimla: ₹1.99 lakh

Chapter-IV
Stamp Duty

CHAPTER-IV STAMP DUTY

4.1 Tax administration

The State Government exercises control over the registration of instruments through the Additional Chief Secretary (Revenue) at Government level. The Inspector General of Registration (IGR) is the Head of the Revenue Department who is assisted by Deputy Commissioners (Collectors) and Sub-Registrars (SRs) respectively. He is empowered with the task of superintendence and administration of registration work. For levy and collection of Stamp duty and Registration Fee, State has 12 Collectors and 117 *Tehsildars/Naib-Tehsildars* acting as the Registrars and SRs respectively.

4.2 Results of audit

In 2016-17, test check of records of 30 units of the Revenue Department showed incorrect determination of market value of property and irregular exemption on housing loan, non/short levy of stamp duty and registration fee, non/short recovery of lease money and other irregularities amounting to ₹3.93 crore in 144 cases as depicted below:

Table-4.1 Results of Audit

Sr. No.	Categories	₹ in crore	
		Number of cases	Amount
1.	Incorrect determination of market value of property and irregular exemption on housing loan	33	1.75
2.	Non/short levy of stamp duty and registration fee	37	1.26
3.	Non/short recovery of lease money	02	0.02
4.	Other irregularities	72	0.90
Total		144	3.93

During the year 2016-17, the Department had accepted under-assessments and other deficiencies with revenue implication of ₹45.68 lakh in 100 cases, out of which an amount of ₹38.13 lakh was realised in 100 cases of which ₹37.04 lakh in 94 cases relates to earlier years and ₹1.09 lakh in six cases to the years 2015 and 2016.

Significant cases involving ₹2.18 crore are discussed in the following paragraphs.

4.3 Short recovery of Stamp Duty and Registration Fee on built up structures

Adoption of incorrect market rates for built up structure of residential units resulted in short realisation of Stamp Duty and Registration Fee of ₹92.03 lakh.

Rule 4(c) of the Himachal Pradesh Stamp (Prevention of Under-valuation of Instruments) Amendment Rules, 1992, as amended vide notification dated 26th June 2013, stipulates that certain factors shall be taken into consideration for fixing the rates of valuation of residential/non-residential building such as (i) classification of the buildings into *Pucca, Semi Pucca and Kutcha*, (ii) area in which buildings are located, (iii) latest plinth area rates notified by the Himachal Pradesh Public Works Department (HPPWD), (iv) premium for annual increase and (v) land area occupied by the structure. The Stamp Duty and Registration Fee will be charged as per the Revenue Department's notifications dated 12th January 2012 and 27th January 2014. The Deputy Commissioners (DCs) of the Districts shall finalise the land rates for calculating stamp duty and registration fee for any transaction. The registering officer is also required to verify the consideration amount shown in the sale deeds with reference to the rates fixed by the DC for the purpose.

Audit scrutiny of records of 13 Sub-Registrars (SRs)¹ revealed that 163 documents of sale deeds were registered between January 2014 and December 2015 for a consideration of ₹13.09 crore on the basis of valuation of properties prepared by private architects which was not based on the notification rates of built up structures. The actual value of property including value of built up structure (₹12.39 crore) worked out to ₹25.48 crore on the basis of plinth area rates fixed by the HPPWD in June 2013. While registering these sale deeds, the SRs did not verify the consideration amount with reference to the plinth area rates for the built up structure resulting in short recovery of Stamp Duty and Registration Fee of ₹92.03 lakh.

The matter was reported to the Department and the Government between June 2016 and March 2017; the Department intimated (between August 2017 and October 2017) that six SRs² had recovered an amount of ₹10.63 lakh and information regarding recovery was being collected from the remaining SRs. The reply of the Government was awaited (December 2017).

¹ Banjar: three cases: ₹0.51 lakh, Bilaspur: 15 cases: ₹7.34 lakh, Chuwari: 19 cases: ₹2.48 lakh, Haroli: four cases: ₹1.83 lakh, Kullu: 12 cases: ₹6.55 lakh, Nagrota Bagwan: six cases: ₹0.86 lakh, Nalagarh: 21 cases: ₹22.65 lakh, Palampur: seven cases: ₹0.76 lakh, Shimla: 21 cases: ₹13.14 lakh, Solan: 25 cases: ₹26.04 lakh, Sunder Nagar: 10 cases: ₹1.41 lakh, Sunni: six cases: ₹3.49 lakh and Una: 14 cases: ₹4.97 lakh

² Banjar: ₹0.51 lakh, Kullu: ₹3.21 lakh, Nagrota Bagwan: ₹0.60 lakh, Palampur: ₹0.58 lakh, Sunder Nagar: ₹3.13 lakh and Sunni: ₹2.60 lakh

4.4 Short determination of market value of properties

Incorrect valuation on the basis of affidavits regarding distance of the land from road filed by purchasers resulted in short realisation of Stamp Duty and Registration Fee of ₹37.76 lakh. In addition, penalty of ₹18.88 lakh was also leviable.

The valuation of land for the purpose of registration of sale deeds, both in the case of Rural and Urban areas, is made on the basis of classification of land and in accordance with the Himachal Pradesh Land Record Manual, 1992. A notification issued in January 2012 categorized classification of land in Rural areas for valuation purpose into three categories viz. (i) Property in which any point of the concerned *Khasra Number* (Kh. No.) or part thereof abuts any road (ii) Property not falling in (i) above in which any point of the concerned Kh. No. or part thereof is land up to a distance of 50 metres from the road, and (iii) property not falling in (i) above, in which no point of the concerned Kh. No. or part thereof is within 50 metres from such road. In case of land falling in urban areas, the limit of 25 metres is applicable as against 50 metres in Rural areas. The roads are categorised as National Highway (NH), State Highway (SH) and Other Road (OR). The purchaser will be required to file affidavit stating the distance of the relevant land or holding from a NH, SH or OR which will be the basis for the rate to be used for Stamp Duty calculation. If the affidavit of purchaser found false, penalty upto 50 *per cent* of the applicable Stamp Duty/Registration Fee may be levied and recovered.

Audit scrutiny of the records of seven SRs³ revealed that 30 documents were registered between 2014 and 2015 for a consideration amount of ₹11.46 crore against which Stamp Duty of ₹63.25 lakh and Registration Fee of ₹23.23 lakh was levied on the basis of affidavits filed by the purchasers regarding distance of the properties from different categories of roads. The land was classified by measuring incorrect distance of land or holding from NH, SH or OR on the basis of the affidavits filed by the purchasers. This resulted in adopting valuation of ₹11.46 crore as against the actual valuation of ₹16.90 crore based on the actual distance in each case and short realization of Stamp Duty and Registration Fee of ₹37.76 lakh⁴. In addition, the penalty of ₹18.88 lakh at the rate of 50 *per cent* of Stamp Duty/Registration Fee was also leviable.

The matter was reported to the Department and the Government between December 2016 and February 2017; the Department intimated (August 2017) that SR Nagrota Bagwan had recovered an amount of ₹0.66 lakh and information regarding recovery was being collected from the remaining SRs. The reply of the Government was awaited (December 2017).

³ SRs Indora, Haroli, Kullu, Nagrota Bagwan, Nalagarh, Palampur and Shimla (R)

⁴ SRs Indora: six cases: ₹9.91 lakh, Haroli: one case: ₹1.61 lakh, Kullu: two cases: ₹5.00 lakh, Nagrota Bagwan: six cases: ₹0.66 lakh, Nalagarh: five cases: ₹7.99 lakh, Palampur: six cases: ₹1.14 lakh and Shimla (R): four cases: ₹11.45 lakh

4.5 Short recovery of Stamp Duty and Registration fee on sale deeds of industrial units

The exemption of 50 per cent of stamp duty on sale deeds of industrial units without verification of setting up of new industrial enterprises resulted in short levy of Stamp duty and Registration fee of ₹60.68 lakh.

Rule 4(c) of the Himachal Pradesh Stamp (Prevention of Under-valuation of Instruments) Amendment Rules, 1992, as amended vide notification dated 26th June 2013, stipulates that certain factors shall be taken into consideration for fixing the rates of valuation of residential/non-residential building such as (i) classification of the buildings into *Pucca, Semi Pucca and Kutcha*, (ii) area in which buildings are located, (iii) latest plinth area rates notified by the Himachal Pradesh Public Works Department, (iv) premium for annual increase and (v) land area occupied by the structure. The Deputy Commissioners of the Districts shall finalise the rates for calculating stamp duty and registration fee for any transaction. The registering officer is also required to verify the consideration amount shown in the sale deeds with reference to the rates fixed by the DC for the purpose. The Stamp Duty and Registration Fee will be charged as per the Revenue Department's notifications dated 12th January 2012 and 27th January 2014.

The Government of Himachal Pradesh vide notification dated 13th August 2014 exempted 50 *per cent* Stamp Duty from the date of notification on execution of sale deeds for setting up new industrial units in the State, which commenced/commences production on or from the date of this notification, whichever is later. This will not include any industrial unit, which is formed as a result of re-establishment, mere change of ownership, change in constitution, restructuring or revival of an existing industrial unit.

Audit scrutiny of records of SR Nahan for the year 2014 and 2015 revealed that three documents of sale deed of existing industrial units were registered between April 2015 and July 2015, for a consideration amount of ₹4.85 crore. As such these units were not eligible for exemption from payment of 50 *per cent* of stamp duty, which resulted in short levy of stamp duty of ₹48.48 lakh. Further, these three sale deeds of industrial units were registered for a consideration amount of ₹4.85 crore based on incorrect rates of built up structure and value of land as against the actual value of property of ₹10.95 crore on the basis of applicable rates of land/plinth areas. This resulted in short levy of Registrations fee of ₹12.20 lakh.

Thus, Stamp duty and Registration fee was short levied by ₹60.68 lakh on three sale deeds of industrial units.

The matter was reported to the Department and the Government between December 2016 and February 2017; the Department intimated (August 2017) that information in this regard was being collected from the SR. The reply of the Government was awaited (December 2017).

4.6 Application of incorrect rates of Stamp Duty

Application of incorrect rates of Stamp Duty in sale deeds resulted in short realization of Stamp Duty of ₹28.00 lakh in 314 cases.

The Revenue Department vide notification dated 27th January 2014 revised the rates of Stamp Duty on sales deeds from five to six *per cent* where such instruments were registered in favour of other persons⁵ under Articles 23, 33 and 40 of Schedule I-A of the Indian Stamp Act, 1899.

Audit scrutiny of records of 11 SRs⁶ revealed that 314 documents were registered between February 2014 and November 2015 for a consideration amount of ₹27.58 crore and the SRs levied Stamp Duty of ₹1.38 crore on the basis of old rates against the actual leviable stamp duty of ₹1.66 crore on the basis of revised rates notified in January 2014. This resulted in short realisation of Stamp Duty of ₹28.00 lakh.

The matter was reported to the Department and the Government between December 2016 and February 2017; the Department intimated (September 2017) that five SRs⁷ had recovered an amount of ₹4.70 lakh and information regarding recovery was being collected from the remaining SRs. The reply of the Government was awaited (December 2017).

⁵ Other than women i.e. men

⁶ SRs Bilaspur: 15 cases: ₹0.70 lakh, Chopal: 4 cases: ₹0.60 lakh, Haroli: 28 cases: ₹4.90 lakh, Indora: 30 cases: ₹2.03 lakh, Kangra: 14 cases: ₹1.10 lakh, Kullu: 24 cases: ₹1.72 lakh, Nagrota Bagwan: 18 cases: ₹0.50 lakh, Nalagarh: 39 cases: ₹3.01 lakh, Palampur: 60 cases: ₹3.20 lakh, Shimla (R): 63 cases: ₹7.94 lakh and Sunder Nagar: 19 cases: ₹2.30 lakh

⁷ SRs Chopal: ₹0.51 lakh, Kullu: ₹0.50 lakh, Nagrota Bagwan: ₹0.22 lakh, Palampur: ₹2.33 lakh and Sunder Nagar: ₹1.14 lakh

Chapter-V
Taxes on Vehicles, Goods
and Passengers

CHAPTER-V

TAXES ON VEHICLES, GOODS AND PASSENGERS

5.1 Tax administration

Principal Secretary (Transport) is the administrative head at the Government level. There are a State Transport Authority, an Additional District Magistrate (Special Road Tax), 10 Regional Transport Officers and 63 Registering and Licensing Authorities to regulate the receipts of the Department under the provisions of the Central and the State Motor Vehicle Acts and Rules. The AETCs under the administrative control of Commissioner (Excise and Taxation) regulate the receipts from the passengers and goods tax as per provisions of the Himachal Pradesh Passengers and Goods Taxation Act, 1955.

5.2 Results of audit

During 2016-17, test check of the records of 36 units relating to token tax, special road tax, registration fee, permit fee, driving license fee, conductor license fee, penalties and composite fee under the National Permit Scheme brought out under-assessment of tax and other irregularities involving ₹71.10 crore in 266 cases which are depicted below:

Table-5.1 Results of Audit

			₹ in crore
Sr. No.	Categories	Number of Cases	Amount
1.	Non/short realisation of		
	• Token tax and composite fee	83	4.28
	• Special Road Tax	24	23.09
	• Passenger and goods tax	15	1.17
2.	Evasion of		
	• Token tax	24	1.55
	• Passenger and goods tax	14	1.32
3.	Other irregularities		
	• Vehicles tax	90	0.24
	• Passenger and goods tax	16	39.45
Total		266	71.10

During the year 2016-17, the Department accepted under-assessments and other deficiencies of ₹4.04 crore in 98 cases out of which an amount of ₹2.44 crore was realised in 98 cases pertaining to earlier years.

Significant cases involving an amount of ₹69.65 crore are discussed in the following paragraphs.

5.3 Non-realisation of Token Tax

Token tax of ₹5.66 crore in respect of 12,365 vehicles for the years 2013-14 to 2015-16 was neither demanded by the Department nor paid by the vehicle owners.

Under Section 3 of the Himachal Pradesh Motor Vehicles Taxation (HPMVT) Act, 1972 and Rules made thereunder, token tax as per different rates of tax for different types of vehicles is payable by vehicle owners in advance quarterly or annually in the prescribed manner. Under Section 8, the taxation authority shall serve a notice to a person who is liable to pay the tax. As per Rule 4-A of HPMVT Rules, 1974, if motor vehicle owner fails to pay the tax due within the prescribed period, the taxation authority after giving him an opportunity of being heard, shall direct him to pay in addition to tax, a penalty at the rate of 25 per cent per annum of the tax due.

Audit scrutiny of the Token Tax Registers and data maintained in 'VAHAN' software of 14 Registering and Licensing Authorities (RLAs)¹, 10 Regional Transport Offices (RTOs)² and State Transport Authority, Shimla (STA) revealed that out of 25,718 test checked vehicles, token tax amounting to ₹5.66 crore in respect of 12,365 vehicles for the years 2013-14 to 2015-16, was not deposited by the vehicle owners for the different periods as depicted in **Annexure-VII**. Besides, penalty at the prescribed rate was also leviable for non-payment of tax. No initiative had been taken by the taxation authorities to recover the tax from the defaulters. This resulted in non-recovery of token tax of ₹5.66 crore.

The matter was reported to the Department and the Government (between May 2016 and April 2017); the Department intimated (between August 2016 and October 2017) that six RLAs³, seven RTOs⁴ and STA had recovered an amount of ₹59.82 lakh and notices were issued to defaulters to recover the balance amount. The remaining taxation authorities stated that notices would be issued to the defaulters to deposit the tax. The reply of the Government was awaited (December 2017).

¹ **RLAs** Amb: ₹62.49 lakh, Arki: ₹52.76 lakh, Bilaspur: ₹30.89 lakh, Chopal: ₹3.27 lakh, Dehra: ₹32.17 lakh, Kangra: ₹12.98 lakh, Mandi: ₹41.23 lakh, Manali: ₹4.22 lakh, Palampur: ₹10.49 lakh, Parwanoo: ₹1.10 lakh, Rajgarh: ₹7.36 lakh, Rohru: ₹19.20 lakh, Sarkaghat: ₹13.37 lakh and Shimla (R): ₹5.81 lakh

² **RTOs** Bilaspur: ₹27.67 lakh, Chamba: ₹14.66 lakh, Hamirpur: ₹9.70 lakh, Kangra: ₹22.82 lakh, Kullu: ₹49.14 lakh, Mandi: ₹17.15 lakh, Nahan: ₹9.21 lakh, Shimla: ₹36.18 lakh, Solan: ₹4.30 lakh and Una: ₹35.65 lakh **STA** Shimla: ₹42.45 lakh

³ **RLAs**: Amb: ₹5.64 lakh, Arki: ₹2.16 lakh, Kangra: ₹2.88 lakh, Mandi: 15.30 lakh, Palampur: ₹9.00 lakh and Sarkaghat: ₹2.08 lakh

⁴ **RTOs**: Bilaspur: ₹3.71 lakh, Chamba: ₹1.80 lakh, Hamirpur: ₹0.79 lakh, Kangra: ₹2.97 lakh, Mandi: ₹2.43 lakh, Nahan: ₹2.61 lakh, Una: ₹5.33 lakh and **STA**: Shimla: ₹3.12 lakh

5.4 Non/short recovery of Special Road Tax

Special Road Tax amounting to ₹22.39 crore was not recovered from Himachal Road Transport Corporation and private stage carriages.

Under Section 3-A of HPMVT Act, 1972, State Government shall levy a monthly Special Road Tax (SRT) on all transport vehicles used or kept for use in the State. This will be payable in advance by 15th of every month at the prescribed rates⁵. Further, Section 14(2) of the Act provides for exemption from SRT if the registered owner intimates in writing to the taxation authority that the motor vehicle would not be used in any public place, for a particular period and deposits the certificate of registration (RC) of such motor vehicle along with route permit. Rule 4A of HPMVT Rules, 1974 stipulates that if a vehicle owner fails to pay the SRT due within the prescribed period, the taxation authority shall direct the owner to pay penalty at the rate of 25 per cent per annum of the tax due.

5.4.1 Non-payment of SRT by Himachal Road Transport Corporation

Audit scrutiny of the records of SRT registers of nine RTOs between June 2016 and April 2017 showed that SRT for the period from April 2015 to March 2016 aggregating ₹20.86 crore⁶ was neither deposited by the Himachal Road Transport Corporation (HRTC) nor demanded by the RTOs till March 2017.

On this being pointed out, RTOs stated that the matter would be taken up with the HRTC to affect the recovery. In spite of being pointed out in previous Audits, no concrete action had been taken by the Department to ensure timely recovery.

5.4.2 Non-accountal of route permits for assessment of SRT

(i) Audit test checked the records of two RTOs⁷, and noticed that permits for 11 routes issued/renewed by the respective RTOs to the stage carriages of HRTC, for the period 2015-16 were not accounted for the assessment of SRT. The RTOs failed to detect this omission during the scrutiny of SRT assessment statements furnished by the HRTC depots. Thus, SRT of ₹37.61⁸ lakh escaped assessment.

⁵ The rates of SRT are based on the classification of routes on which vehicles are plying such as National Highways, State Highways, Rural Roads and Local buses/mini buses operating within a radius of 30 kilometers. The rates of SRT for the above routes are as ₹6.04, ₹5.03 and ₹4.03 per seat per kilometer respectively

⁶ Bilaspur: ₹1.01 crore, Chamba: ₹1.31 crore, Hamirpur: ₹1.00 crore, Kangra: ₹5.43 crore, Kullu: ₹2.18 crore, Mandi: ₹2.75 crore, Nahan: ₹89.00 lakh, Shimla: ₹5.21 crore and Solan: ₹1.08 crore

⁷ Shimla: 10 cases and Nahan: one case

⁸ Shimla: ₹31.56 lakh and Nahan: ₹6.05 lakh

(ii) Short assessment of SRT

Audit scrutiny of records of route permits and SRT assessment statements furnished by the HRTC units of two RTOs⁹ for the period 2015-16 revealed that SRT was not calculated as per the route or the distance covered as per the route permits in 11 cases and SRT assessment statements were accepted as correct. This resulted in short assessment of SRT of ₹9.48 lakh.

5.4.3 Private Stage Carriage

Audit scrutiny of SRT registers of eight RTOs¹⁰ showed that SRT amounting to ₹1.06 crore was recoverable from the owners of private stage carriages (PSCs) in 167 cases pertaining to the period 2014-16. There was nothing on records to indicate that any initiative had been taken by the taxation authorities to recover the SRT. This resulted in non-recovery of SRT of ₹1.06 crore. In addition, a minimum penalty of ₹26.44 lakh at the prescribed rate was also recoverable.

There was nothing on records to indicate that RCs/route permits were surrendered with the concerned RTOs for exemption from payment of SRT in all the above cases.

The matter was reported to the Department and the Government between July 2016 and April 2017; the Department intimated (between April and October 2017) that out of ₹47.97 lakh an amount of ₹30.01 lakh had been recovered by five RTOs¹¹ and the remaining RTOs stated that efforts were being made to recover the amount. The reply of the Government had not been received (December 2017).

5.5 Non-realisation of Passenger and Goods Tax

The passenger and goods tax amounting to ₹1.10 crore was neither paid by the owners of 1,911 commercial vehicles nor demanded by the Department for the period 2014-15 to 2015-16.

Under Section 3 of the HPPGT Act, 1955 owners of vehicles are required to pay Passenger and Goods Tax (PGT) on all fares and freight at the prescribed rates either quarterly or annually. Rule 9 (7) (ii) (c) (i & ii) of the HPPGT Rules, 1957 provides that vehicle owners shall inform the Assessing Authorities (AAs) concerned as soon as the vehicles goes out of use for exemption from payment of tax for that period. Rule 22 further provides that in case any sum is payable by an owner, AA shall serve a notice to the vehicle owner to furnish receipt of challan in proof of tax payment. Section 12 of the Act *ibid* further provides that any arrears or penalty imposed under this Act shall be recoverable as an Arrear of Land Revenue (ALR).

⁹ Shimla: ₹6.24 lakh and Nahan: ₹3.24 lakh

¹⁰ Bilaspur: ₹3.03 lakh, Kangra: ₹24.37 lakh, Kullu: ₹2.47 lakh, Mandi: ₹11.56 lakh, Nahan: ₹4.84 lakh, Shimla: ₹14.88 lakh, Solan: ₹25.84 lakh and Una: ₹18.76 lakh

¹¹ Bilaspur: ₹2.24 lakh, Kangra: ₹8.15 lakh, Mandi: ₹5.46 lakh, Nahan: ₹3.72 lakh and Una: ₹10.44 lakh

Audit scrutiny of Demand and Collection Register (DCR) maintained by six AETCs revealed that PGT in respect of 1,911 vehicles¹² amounting to ₹1.10 crore for the period from 2014-15 to 2015-16 was not paid by the commercial vehicle owners already registered with Excise and Taxation Department. The commercial vehicle owners had also not sought exemption from tax for non-use of the vehicles during this period. However, the AAs neither issued demand notices to the vehicle owners in proof of tax payment nor referred their cases to the Collector for recovery as ALR. This resulted in non-realisation of PGT of ₹1.10 crore as depicted below:

Table-5.2 Non-realisation of Passenger and Goods Tax from vehicles

			₹ in lakh
Sr. No.	Category of vehicles	No. of vehicles not paying PGT	Amount of tax due
1.	Passenger Vehicles (Maxi Cabs/Taxi)	459	21.87
2.	Passenger Vehicles (Educational Institution Buses)	46	3.76
3.	Goods vehicles (HGV/MGV/LGV/Tractors)	1,406	84.13
Total		1,911	109.76
Say 1.10 crore			

The matter was reported to the Department and the Government between June 2016 and March 2017; the Department intimated (September 2017) that AETCs had recovered ₹29.55 lakh (Passenger tax ₹9.63 lakh + Goods Tax ₹19.92 lakh) from 567 vehicle owners and efforts were being made to recover the balance amount. The reply of the Government was awaited (December 2017).

5.6 Non-registration of commercial vehicles with Excise and Taxation Department

Due to lack of co-ordination between the concerned RLAs/RTOs and AETCs, the owners of the 2,961 commercial vehicles did not register their vehicles with the concerned Excise and Taxation Department which resulted in non-realisation of Passenger and Goods tax amounting to ₹1.13 crore.

Under the HPPGT Act, 1955 and the HPPGT Rules, 1957 made thereunder, owners of stage/contract carriages and goods carriages are required to register their vehicles with the concerned Excise and Taxation Offices and pay PGT at the prescribed rates. Vehicle registration is handled by the RTOs and RLAs and collection of PGT is handled by different AETCs. Further, Section 8 of the Act provides that no vehicle owner shall ply his vehicle in the State unless he is in possession of a valid certificate of registration. Section 9-B (5) of the Act further provides that if the vehicle owner fails to apply for registration or to pay tax or surcharge, penalty not exceeding five times the amount of tax so assessed, subject to a minimum of ₹500, is also leviable.

¹² Baddi: 244 vehicles: ₹13.08 lakh, Bilaspur: 583 vehicles: ₹38.14 lakh, Kangra: 180 vehicles: ₹12.11 lakh, Sirmour: 349 vehicles: ₹19.58 lakh, Shimla: 384 vehicles: ₹16.59 lakh and Solan: 171 vehicles: ₹10.26 lakh

Cross check of the registration records of three RLAs¹³ and five RTOs¹⁴ with those of concerned AETCs revealed that out of 6,342 vehicles registered with RLAs/RTOs during 2014-15 to 2015-16, 2,961 vehicles liable to pay fixed PGT were not registered with the concerned AETCs. Lack of co-ordination between AETCs and concerned RLAs/RTOs resulted in non-realisation of PGT of ₹1.13 crore¹⁵ due to non-registration of 2,961 commercial vehicles with Excise and Taxation Department as depicted in **Annexure-VIII**. In addition, a minimum penalty of ₹14.81 lakh was also leviable.

The matter was reported to the Department and the Government between June 2016 and March 2017; the Department stated (September 2017) that out of ₹1.13 crore, an amount of ₹19.22 lakh and penalty of ₹61,500 (Passenger tax ₹3.07 lakh + Goods Tax ₹16.15 lakh) had been recovered from 525 vehicle owners by six AETCs and efforts were being made to recover the balance amount. The reply of the Government was awaited (December 2017).

5.7 Non-levy and collection of Additional Goods Tax

Additional Goods tax of ₹39.37 crore was neither paid by three cement companies who had transported limestone and shale from mining areas to cement plants for manufacturing of cement and clinker nor was it demanded by the Department.

Section 3-B of the HPPGT Act, 1955 stipulates that Additional Goods Tax (AGT) is to be levied, charged and paid to the State Government on transport of goods specified in column (2) of the Schedule-II of HPPGT Act at the rates prescribed for each item. Rule 9-D of HPPGT Rules, further provides that a person selling or causing or authorizing to cause dispatch for transport of goods specified in Schedule-II to the Act and duly authorised by the State Government by notification shall be duly registered by the AETC or ETO in-charge of the District under the HP General Sales Tax Act, 1968, and HP Value Added Tax Act, 2005 in the concerned District office. The authorised person shall collect AGT and deposit it into the Government Treasury. Further, Rule 9-E provides that the concerned Assessing Authority shall scrutinise every return filed under Section 4-A of the Act by the person authorised to collect tax under the Act, after the close of each month and the AA shall assess every case on half-yearly basis.

Audit scrutiny of AETCs Bilaspur and Solan and cross check with records collected from Mining Officers, Bilaspur and Solan, showed that three Cement Companies, authorised for collection of AGT, transported 109,86,514 MT of lime-stone and 14,30,418 MT of shale from mining areas to their Cement Plants for use as raw material during the period 2015-16 on which AGT of ₹39.45 crore¹⁶ was leviable against which ₹8.38 lakh was actually paid. Though the

¹³ RLAs Bilaspur, Sirmour and Solan

¹⁴ RTOs Baddi, Bilaspur, Kangra, Shimla and Solan

¹⁵ AETCs Baddi: ₹57.64 lakh, Bilaspur: ₹22.98 lakh, Dharamshala: ₹13.14 lakh, Sirmour: ₹3.03 lakh, Shimla: ₹9.81 lakh and Solan: ₹6.14 lakh

¹⁶ Limestone 1,09,86,514 MT x ₹35 per tonne + Shale 14,30,418 MT x ₹7 per tonne

companies were submitting AGT returns regularly since their authorization, but AETCs did not scrutinise the monthly returns and finalise their assessments on half-yearly basis resulting in loss of revenue of ₹39.37 crore due to non-recovery of AGT.

On this being pointed out, AETC Solan stated (April 2017) that matter was under consideration with ETC and action would be taken as per Rules and regulations. The reply is not accepted as this issue was commented in Audit Reports of March 2014, March 2015 and March 2016. The Excise and Taxation Commissioner directed (August 2015) AETC, Solan to examine the reply of one of the Cement Companies on certain additional aspects after visiting Cement Company premises and sought action taken report. The AETC Solan intimated that lime stone extracted was carried by dumpers from mining area to crusher located in mining area. Audit observed that no decision was taken by Excise and Taxation Commissioner even though reply was received from AETC Solan in April 2016. The ETC did not furnish final decision on this issue in spite of being asked for on 11th October 2017.

Since the roads on which dumpers were running were situated in mining area and leased out by Government of Himachal Pradesh, PGT was payable by the Cement Companies. Hence, use of roads within mining area which was the property of Government of HP, deduction/deposit of AGT on lime stone/shale by Cement Companies was mandatory.

The matter was reported to the Department and the Government between June 2016 and February 2017; their replies were not received (December 2017).

Chapter-VI
Forest Receipts

CHAPTER-VI

FOREST RECEIPTS

6.1 Tax administration

The Principal Chief Conservator of Forest (PCCF) heads the Forest Department under the administrative control of the Additional Chief Secretary (Forest). The PCCF is assisted by eight Conservators of Forest (CFs) in 37 territorial divisions. Each CF controls the exploitation and regeneration of forest activities carried out by Divisional Forest Officers (DFOs) under their control. Each DFO is in-charge of assigned forest related activities in his territorial division.

6.2 Results of audit

During 2016-17, test check of the records of 28 units as well as collection of information relating to forest receipts brought out non/short recovery of royalty, non-levy of interest/extension fee, blocking/loss of revenue due to seized timber and other irregularities involving ₹61.64 crore in 103 cases which are depicted below.

Table-6.1 Results of Audit

Sr. No.	Categories	₹ in crore	
		Number of cases	Amount
1.	Non/Short recovery of royalty	35	15.06
2.	Non-levy of interest/extension fee	09	2.51
3.	Blockade/Loss of revenue due to seized timber	17	2.95
4.	Other irregularities	42	41.12
Total		103	61.64

During the course of the year, the Department accepted under-assessment and other deficiencies of ₹47.17 lakh in six cases which were pointed out in earlier years out of which an amount of ₹38.99 lakh was realised in six cases pertaining to earlier years.

Significant cases involving ₹34.30 crore are discussed in the following paragraphs.

6.3 Non-raising of demand for arbitrarily withheld royalty

Department failed to recover the withheld amount of royalty of ₹31.12 crore from Himachal Pradesh State Forest Development Corporation Limited.

Extracting resin and salvaging timber is carried out by Himachal Pradesh State Forest Development Corporation Limited (HPSFDC). A Pricing Committee (PC), constituted by the HP Government determines the rates of royalty, terms and conditions for exploitation of resin blazes¹, standing trees and other forest produce by HPSFDC from time to time. HPSFDC makes payment of royalty due in two instalments in respect of resin and timber allotted by the Forest Department during lease period.

Audit noticed that HPSFDC had withheld (December 2012) payment of ₹17.35 crore on account of royalty of timber, resin and bamboo in lieu of amount recoverable from the Department towards cost and transportation charges of fuel wood supplied to the depots of tribal areas, to be released on receipt of the same

¹ A mark of cut on *Chil* trees to tap resin.

from the Department. The Department paid cost of fuel wood amounting to ₹17.31 crore as against ₹15.86 crore actually payable for the period 2007-08 to 2012-13, resulting in excess payment of ₹1.45 crore. Thus, failure of Department to claim withheld amount of royalty on account of timber royalty and excess payment made on account of fuel wood resulted in non-recovery of revenue of ₹18.80 crore by the Department.

Further, HPSFDC did not release the 1st instalment of resin royalty for resin season 2014 amounting to ₹4.16 crore on account of cost and transportation charges of forest produce supplied to the tribal areas up to 2012-13. Audit scrutiny further revealed that HPSFDC released partial royalty payment of ₹1.26 crore against total royalty of ₹9.42 crore in respect of resin season 2015, which was payable by 15th December 2015. Thus, royalty payment of ₹8.16 crore was also recoverable from the HPSFDC. The Department did not raise demand for royalty payment of ₹31.12 crore (₹18.80 crore + ₹8.16 crore + ₹4.16 crore) including excess payment towards cost/transportation charges of fuel wood.

The matter was reported to the Government and the Department in June 2017; the Department replied (July 2017) that HPSFDC released royalty payment of ₹72.27 crore during June 2013 to March 2017. However, payment of ₹31.12 crore was not found to have been paid to the Department as per details provided in July 2017. The reply of the Government was awaited (December 2017).

6.4 Non-payment of differential resin royalty

Failure of the Department to demand differential amount of resin royalty for resin season 2014 resulted in loss of revenue of ₹2.48 crore.

The PC constituted by the HP Government determines the rates of royalty, terms and conditions for exploitation of forest. PC in its meeting held on 11th July 2014 approved the tentative royalty rate of resin season 2014 at ₹58.78 per resin blaze and tentative rates were revised to ₹75.30 per resin blaze in PC meeting held in February 2016.

Audit noticed (between October 2016 and February 2017) from the statements of payment of resin blazes that HPSFDC had released the payment of resin royalty of ₹8.32 crore against the due royalty of ₹10.80 crore worked out on the basis of final royalty rates fixed by the PC for the resin season 2014. The differential amount of royalty of ₹2.48 crore on finalization of royalty rates for the resin season 2014 was neither demanded by the Department nor paid by the HPSFDC. This resulted in non-realization of revenue of ₹2.48 crore. The Department was not having a proper mechanism to raise bills in time and follow up recovery of dues, which resulted in long outstanding and non-realization of dues.

The matter was reported to the Department and the Government between November 2016 and March 2017; their replies were awaited (December 2017).

6.5 Non-levy of interest on short payment of royalty

Interest of ₹70.47 lakh on short payment of royalty of ₹6.52 crore, from November 2015 to June 2016, was not levied by the Department.

As per PC decision of July 2007, royalty on salvage lots to be paid by 20th March for 1st instalment, 20th June for 2nd instalment in respect of low lying lots


and 30th November and 20th March for high lying lots applicable for the lots of 2007-08 onwards and 15th September and 15th December for resin blazes lots. The PC in its meeting dated 15th February 2005, decided that the HPSFDC would pay interest at the rate of nine *per cent* per annum on belated payment of royalty. A grace period of 90 days is admissible if the payment is made within the grace period, otherwise, HPSFDC is liable to pay interest from the due date of payment of royalty.

Audit scrutiny of the records relating to payment of royalty etc., of 10 DFOs² between August 2016 and March 2017 revealed that 112 timber lots (17 high and 95 low lying lots) were handed over for exploitation during 2015-16 for which royalty of ₹6.71 crore was payable. The HPSFDC paid ₹19.20 lakh on due dates and ₹6.52 crore remained unpaid as on March 2017. The delay in payment of royalty ranged between 284 and 487 days up to 31.03.2017. Thus, interest of ₹70.47 lakh on delayed payment of royalty though leviable was not levied by the Department for the period of November 2015 to June 2016.

On this being pointed out, the DFOs stated that matter would be taken up with the HPSFDC to recover the amount of interest and royalty.

The matter was reported to the Government and the Department between October 2016 and June 2017; their replies were awaited (December 2017).

Shimla
The 26 February 2018


(KULWANT SINGH)
Accountant General (Audit)
Himachal Pradesh

Countersigned

New Delhi
The 12 March 2018


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

² DFOs Chopal: 13 lots: ₹18.89 lakh, Dalhousie: five lots: ₹10.55 lakh, Karsog: three lots: ₹25.78 lakh, Rajgarh: nine lots: ₹0.55 lakh, Rampur: four lots: ₹0.41 lakh, Rohru: nine lots: ₹3.81 lakh, Shimla (Khalini): 14 lots: ₹5.48 lakh, Solan: two lots: ₹0.51 lakh, Una: 51 lots: ₹1.65 lakh and Kunihar: two lots: ₹2.84 lakh

Annexures

Annexures

Annexure-I

Reference Paragraph-1.1.2-Page 3 (Footnote) Trend of revenue receipts

₹ in crore		
Details of other Non-Tax Revenue		
Sr. No.	Revenue head	Amount
1	0050-Dividends and Profit	289.63
2	0051- Public Service Commission	15.54
3	0056- Jail	0.16
4	0057- Supplies and Disposals	0.04
5	0058- Stationery and Printing	8.55
6	0071-Contributions and Recoveries towards Pension and other	7.80
7	0202-Education, Sports, Art and culture	112.22
8	0211- Family Welfare	0.02
9	0215-Water supply and Sanitation	46.82
10	0216-Housing	3.85
11	0217-Urban Development	7.12
12	0220-Information and publicity	1.91
13	0230-Labour and Employment	7.19
14	0235-Social Security and Welfare	5.57
15	0250- Other Social Services	0.03
16	0401-Crop Husbandry	5.83
17	0403-Animal Husbandry	1.10
18	0405-Fisheries	4.27
19	0407-Plantation	0.00
20	0408-Food Storage and Warehousing	0.20
21	0435-Other Agricultural Programmes	0.48
22	0515-Other Rural Development Programmes	2.46
23	0575-Other Social Areas Programmes	0.10
24	0702-Minor Irrigation	1.30
25	0851-Village and Small Industries	0.65
26	0852-Industries	3.82
27	1054-Roads and Bridges	14.52
28	1055-Road Transport	0.64
29	1425-Other scientific Research	0.01
30	1452-Tourism	0.76
31	1456-Civil Supplies	4.22
32	1475-Other General Economic Services	5.53
Total		552.34

Annexure-II

Reference Paragraph-2.3.1-Page 14 Introduction

Sr. No.	Activities covered under different Modules of VAT-IT Project
1	Registration of dealers and Management of Basic Information furnished by the dealers
2	Record of tax payment under VAT and CST Acts
3	Return Management
4	Refund
5	Appeals
6	Monitoring Revision
7	Recovery Management
8	Multipurpose Check posts /barriers
9	Deemed Assessment
10	Assessments and their entry into the Register of institution and assessment cases
11	Enforcement and Inspection
12	Lump sum payment of tax by way of composition
13	Number of works contracts allotted and deduction of tax from bills and invoices of works contractors
14	Annual commodity wise tax returns
15	Incentives provided to industries
16	Other Acts and the Rules etc.

Annexure-III

Reference Paragraph-2.3.4-Page-18 Financial Status of VAT-IT Project

Sr. No.	Name of work under MSA
1	Application- customization of VAT application to meet the needs of the Department
2	System study and specifications- study the existing system of taxation, conducting requirement analysis and drawing up the functional requirements
3	Software development and customization
4	Ongoing software modification and development
5	Implementation
6	Reports for Tax Information Exchange System (TINXSYS)
7	Training including IS security awareness training, VAT application user training and VAT application system administration training
8	Support
9	Hardware
10	Web Portal Help desk and facilities management
11	Networking
12	System integration
13	Legacy data Conversion as per details in Annexure
14	Site Preparation
15	IS security Requirements

Annexure-IV

Reference Paragraph: 2.3.6-Page-19 Legacy Data Conversion

Sr. No.	Data/Register	Period to be digitised	Volume (Records)
1	Register of Registered Dealers-All dealers	1 st April 2005 onwards	27,772
2	Receipt and issue of Declaration	1 st April 2005 onwards	1,38,860
3	Forms to be maintained by AAA VAT XXVI D&E forms (dealer wise)	1 st April 2005 onwards	1,38,860
4	VT XXVI-A of unregistered dealers received at barrier	1 st April 2005 onwards	41,658
5	VT XXVI-A of registered dealers received at barrier	1 st April 2005 onwards	97,202
6	Assessment Register	1 st April 2005 onwards	NA
7	Appeals, application of revision/ <i>suo moto</i> revisions	1 st April 2005 onwards	NA
8	Returns Register	1 st April 2005 onwards	1,66,632
9	Demand & Collection Register	1 st April 2005 onwards	27,772
10	Daily Collection Register	1 st April 2005 onwards	1,66,632

Annexure-V

Reference Paragraph: 2.3.16-Page-24 Deficiencies in Web Portal and Application (Application)

1	Access control to server room is not defined and is open to all employees of Mobineers and Implementation Partner
2	Identification of risk parameters and assigning a Dealer wise rating for Default Risk
3	Comparison of stock to sales and raising appropriate alerts as per pre-defined conditions
4	Comparison of sales to purchase ratio and raising appropriate alerts
5	Quarterly report on institution of, disposal and pendency of appeals by each of the Appellate Authority
6	Quarterly report on Appellate Authority wise revisions initiated along with disputed tax amounts
7	Issuance of recovery notices to defaulting dealers etc. and their tracking
8	Automatic updating of assessment circle office records on receipt of the payment and to facilitate automatic reconciliation of payments with Daily Collection Register, Demand and Collection Register
9	Tracking of arrival information of the vehicles
10	Periodical report on assessee wise and year wise (i) pending assessment cases inherited from previous year, (ii) new cases instituted at the commencement of year, (iii) cases disposed of during the year and (iv) cases pending at the close of the year
11	Periodical report on additional demand created, recovered and balance. Similar reports on re-assessment
12	Periodical reports of different categories of lump sum tax payers and amounts of tax paid during a given period, category wise and aggregate
13	Capturing of details of turnover of works contract for which bills/invoices were raised by contractor and payments made by contractees
14	Capturing of details relating to amounts deducted under Section 17 and Rule 38 and paid into contractor's account (who is supposed to be a registered dealer)
15	Facilitate capture of (i) dealers running industrial units manufacturing goods, (ii) whether new industry or existing industry or industries undertaking substantial expansion, (iii) their gross turnover (iv) taxable turnover covered by (a) exemption (partial or full), (b) deferment (partial or full), (c) deferment because of substantial expansion or (d) facility of upfront payment at the rate of 65 per cent of the deferred tax liability (v) tax effect, (vi) other aspects
16	Periodical report on number of dealers enjoying incentives, (b) nature of incentive, (c) turnover on which etc.
17	Details relating to periodical administrative returns from the field offices to the Head Quarters and Headquarters to the Government as may be assigned
18	Tracking liable unregistered dealers
19	Track application status and relevant dates, provide alerts on delays and facilitate recording of reason for the same
20	Identification of false refund claims using checking mechanisms
21	Access to classification tables and Tribunal/High Court/Supreme Court Judgments' for better quality assessments
22	MIS of Appeals- Pendency of cases along different search parameters, maintenance of statutory registers for details of cases, position of appeals, disputed tax wise, position of appeals year wise, circle wise, position of appeals assessing office wise
23	Capturing of details of WRIT, SLP, LPA
24	MIS Report on amount wise stayed cases
25	Functionalities regarding Excise Act and secondary modules of allied acts are yet to be implemented

Annexure-VI

Reference Paragraph: 2.3.16-Page-24 Deficiencies in Web Portal and Application (Web Portal)

1	All relevant Acts and Rules not present on Web Portal
2	Important Judgments relevant to the Department not being updated
3	Right to Information Section with forms for requesting information from the Department. Besides the list of PIOs is outdated
4	Organisation Structure Spatial distribution of the offices of the Department through an interactive state map. Hyperlinks available on each office location shall lead to detailed address, contact numbers and officers of the same
5	Search on tax rates on the basis of commodities. An alphabetic search option where all commodities starting with the alphabet selected shall be displayed with hyperlink to the detailed page having the tax rates and links to exemption notices, if any
6	List of all major tax Payers and Defaulters with the amount of tax paid and/defaulted

Annexure-VII

Reference paragraph: 5.3-Page-72 Non-realisation of Token tax

Sr. No.	Category of vehicle	Name of RLAs/RTOs/STA	Period	Total Test checked vehicles	No. of vehicles not paid tax	Amount recoverable (₹ in crore)
1	Private Stage Carriages Buses/Mini Buses/ Maxi Cabs/Taxi (Passenger Vehicles)	RLAs-Amb, Arki, Bilaspur, Dehra, Kangra, Mandi, Palampur, Rajgarh, Rohru and Sarkaghat	2013-14 to 2015-16	1,287	501	0.85
		RTOs-Bilaspur, Chamba, Hamirpur, Kangra, Kullu, Mandi, Nahan, Shimla, Solan and Una		4,890	2,213	1.31
		STAs- Shimla		595	247	0.30
Total (A)	6,772	2,961		2.46		
2	Heavy/Medium /Light Goods Vehicles/ Tractors (C) (Goods vehicles)	RLAs- Amb, Arki, Bilaspur, Chopal, Dehra, Kangra, Mandi, Manali, Palampur, Parwanoo, Rajgarh, Rohru, Sarkaghat and Shimla (R)		9,486	4,925	1.67
		RTOs-Bilaspur, Chamba, Hamirpur, Kangra, Kullu, Mandi, Shimla, Solan and Una		7,970	3,662	0.64
		STAs- Shimla	400	230	0.08	
Total (B)	17,856	8,817	2.39			
3	Cranes, Recovery Vans etc. (Construction vehicles)	RLAs-Amb, Arki, Bilaspur, Dehra, Kangra, Mandi, Rajgarh, Rohru and Shimla (R)	480	243	0.45	
		RTOs-Bilaspur, Chamba, Kangra Kullu, Mandi, Shimla and Una	530	317	0.31	
		STAs- Shimla	80	27	0.05	
Total (C)	1,090	587	0.81			
Total (A)+(B)+(C)				25,718	12,365	5.66

Annexure-VIII

Reference paragraph: 5.6 –Page-76 Non-registration of commercial vehicles with Excise and Taxation Department

₹ in lakh							
Sr. No.	Types of vehicle	No. of vehicles registered under MVT Act	No. of vehicles not registered with Excise & Taxation Department	Amount recoverable			
				Passenger tax	Goods tax	Total amount recoverable	Minimum penalty @ ₹500/-per vehicle
1	Passenger Vehicles (Maxi Cabs/Taxi)	2,179	530	12.29	--	12.29	2.65
2	Passenger Vehicles (Educational Institution Buses)	82	28	1.86	--	1.86	0.14
3	Goods vehicles (HGV/MGV/LGV/ Tractors)	4081	2403	--	98.59	98.59	12.02
Total		6,342	2,961	14.15	98.59	112.74	14.81
Say ₹1.13 crore							

Glossary

GLOSSARY OF ABBREVIATIONS

Abbreviation	Full form of the abbreviation
AAs	Assessing Authorities
ACF	Assistant Conservators of Forest
ACRs	Annual Confidential Reports
AD	Additional demand
AETCs	Assistant Excise and Taxation Commissioners
AGT	Additional Goods Tax
ALR	Arrear of Land Revenue
BBMB	Bhakra Beas Management Board
BBN	Baddi, Barotiwala and Nalagarh
BDO	Block Development Officer
BEs	Budget Estimates
BWH	Bonded Warehouse
CA	Compensatory Afforestation
CAMPA	Compensatory Afforestation Fund Management and Planning Authority
CEI	Chief Electrical Inspector
CF	Conservator of Forest
CGCR	Certain Goods Carried by Roads
CL	Country Liquor
CMC	Computer Management Corporation
CS	Country Spirit
CST	Central Sales Tax
CZ	Central Zone
DC	Deputy Commissioner
DCR	Demand and Collection Register
DDO	Drawing and Disbursing Officer
DETC	Deputy Excise and Taxation Commissioner
DFOs	Divisional Forest Officers
DIT	Department of Information Technology
DM	Divisional Manager
DPROs	District Public Relation Officers
DR	Damage Report
EA	Excise Announcement
EC	Empowered Committee
ED	Electricity Duty
ENA	Extra Neutral Alcohol
ETC	Excise and Taxation Commissioner
ETD	Excise and Taxation Department
ETI	Excise and Taxation Inspector
ETOs	Excise and Taxation Officers
F&A	Finance & Accounts
FCA	Forest Conservation Act
FS	Flying Squad
GOI	Government of India
GST	Goods and Service Tax
GSTN	Goods and Service Tax Number
GTO	Gross Turn Over
HEPs	Hydro Electric Projects
HIMTAS	Himachal Pradesh Tax Administration System
HoD	Head of the Department
HP	Himachal Pradesh
HPLR	Himachal Pradesh Land Revenue/Himachal Pradesh Lease Rules

HPGST	Himachal Pradesh General Sales Tax
HPVAT	Himachal Pradesh Value Added Tax
HPVAT-IT	Himachal Pradesh Value Added Tax-Information Technology
HPID	Himachal Pradesh Infrastructure Development
HPMVR	Himachal Pradesh Motor Vehicle Rules
HPMVT	Himachal Pradesh Motor Vehicles Tax
HPPGT	Himachal Pradesh Passengers and Goods Tax
HPPGTR	Himachal Pradesh Passengers and Goods Tax Rules
HPPWD	Himachal Pradesh Public Works Department
HPSEBL	Himachal Pradesh State Electricity Board Ltd.
HPSFDCL	Himachal Pradesh State Forest Development Corporation Ltd.
HPTDC	Himachal Pradesh Tourism Development Corporation
HRTC	Himachal Road Transport Corporation
IAC	Internal Audit Cell
IAW	Internal Audit Wing
ICDP	Integrated Co-operative Development Projects
IDEA	Interactive Data Extraction and Analysis
IFA	Indian Forest Act
IGR	Inspector General of Registration
IMFL	Indian Made Foreign Liquor
IMFS	Indian Made Foreign Spirit
IP	Implementation Partner
IR Act	Indian Registration Act
IRs	Inspection Reports
IS Act	Indian Stamp Act
ISS	Inter State Sales
IT	Information & Technology
ITC	Input Tax Credit
MGQ	Minimum Guaranteed Quota
MIS	Management Information System
MO	Mining Officer
MPP & Power	Multi-Purpose Projects and Power
MSA	Master Service Agreement
MT	Metric Tonne
MVT	Motor Vehicles Tax
M&TP	Medicines & Toilets Preparation
NH	National Highway
NIC	National Informatics Centre
NPV	Net Present Value
NZ	North Zone
OR	Other Road
OTD	Other Taxes and Duties
O&M	Operation and Maintenance Cost
PA	Performance Audit
PAG	Principal Accountant General
PAC	Public Accounts Committee
PC	Pricing Committee
PCCF	Principal Chief Conservator of Forest
PDR	Punjab Distillery Rules
PGT	Passenger and Goods Tax
PIC	Project Implementation Committee
PLs	Proof Liters
PSCs	Private Stage Carriages

PwC	M/s PricewaterhouseCoopers
RC	Certificate of Registration
RF	Registration Fee
RFP	Request for Proposal
RLAs	Registering and Licensing Authorities
RO	Range Officer
RR	Rural Road
RS	Rectified Spirit
RTOs	Regional Transport Officers
SD	Stamp Duty
SDCs	Sub-Divisional Collectors
SDD	Software Design Document
SFC	State Financial Corporation
SH	State Highway
SLA	Service Level Agreement
SMS	Short Message Service
SO	Section Officer
SRs	Sub Registrars
SRS	System Requirements Specification
SRT	Special Road Tax
STA	State Transport Authority
SZ	South Zone
TCS	Tax Collection at Source
TCS	Tata Consultancy Services
TDN	Tax Demand Notice
TEGLA	Tax on Entry of Goods into Local Area
TIN	Tax Identification Number
TINXSYS	Tax Information Exchange System
TTO	Taxable Turnover
URS	User Requirements Specification
VAT	Value Added Tax

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