

CHAPTER IV: REVENUE RECEIPTS

4.1 General

4.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Tripura, its share of divisible Union taxes and grants-in-aid from the Government of India during 2008-09 and the corresponding figures for the preceding four years are mentioned below:

Table No. 4.1.1

(Rupees in crore)

	2004-05	2005-06	2006-07	2007-08	2008-09
I. Revenue raised by the State Government					
Tax revenue	239.63	296.09	341.55	370.70	442.50
Non-tax revenue	176.85	63.62	94.97	115.41	149.04
Total (I)	416.48	359.71	436.52	486.11	591.54
II. Receipts from the Government of India					
State's share of net proceeds of divisible Union taxes	383.12	404.38	515.78	650.62	686.52
Grants-in-aid	1,777.30	2,260.03	2,381.06	2,561.61	2798.72
Total (II)	2,160.42	2,664.41	2,896.84	3,212.23	3485.24
III. Total receipts of the State Government (I+II)	2,576.90	3,024.12	3,333.36	3,698.34	4076.78
Percentage of I to III	16	12	13	13	15

The above table indicates that during the year 2008-09, the revenue raised by the State Government was 15 *per cent* of the total revenue receipts (Rs. 4076.78 crore) which had increased by two *per cent* over the previous year. The balance 85 *per cent* of the receipts during 2008-09 was from the Government of India.

4.1.1.1 The tax revenue during 2008-09 increased by 19 *per cent* to Rs. 442.50 crore from Rs. 370.70 crore in 2007-08. The improvement in the collection was mainly under the heads of major taxes *viz.* sales tax/VAT (19 *per cent*), State excise (25 *per cent*) and taxes on vehicles (29 *per cent*), land revenue (87 *per cent*) and stamps and registration fees (14 *per cent*) as shown in the table below.

Table No. 4.1.2

(Rupees in crore)

Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage increase (+) or decrease (-) in 2008-09 over 2007-08
Sales tax/VAT	160.69	203.39	233.45	264.98	314.79	(+) 19
State excise	32.37	32.30	38.41	38.50	48.28	(+) 25
Other taxes on income and expenditure	20.47	21.91	22.19	23.73	25.97	(+) 9
Stamps and registration fees	12.07	14.21	16.61	14.98	17.03	(+) 14
Taxes on vehicles	10.45	17.43	22.51	23.20	29.82	(+) 29
Other taxes and duties on commodities and services	1.86	3.40	5.11	2.17	0.84	(-) 61
Land revenue	1.20	3.25	3.03	2.97	5.55	(+) 87
Taxes on agricultural income	0.27	0.14	0.15	0.11	0.18	(+) 64
Taxes and duties on electricity	0.01	0.02	0.01	0.01	0.02	(+) 100
Others	0.24	0.04	0.08	0.05	0.02	(-) 60
Total	239.63	296.09	341.55	370.70	442.50	(+) 19

The departments did not inform (September 2009) the reasons for the large variations in the receipts in 2008-09 over 2007-08 despite being requested (June 2009).

4.1.1.2 The non-tax revenue during 2008-09 increased by 29 per cent to Rs. 149.04 crore, from Rs. 115.41 crore in 2007-08, mainly under the heads Interest Receipts (7 per cent), Police (40 per cent), and Public Works (55 per cent). There was substantial increase under the head Miscellaneous General Services (4,185 per cent) as shown in the table below.

Table No. 4.1.3

(Rupees in crore)

Heads of revenue	2004-05	2005-06	2006-07	2007-08	2008-09	Percentage increase (+) or decrease (-) in 2008-09 over 2007-08
Power	105.20	1.10	0.06	0.01	*	-
Forestry and Wildlife	5.63	4.87	6.24	5.52	5.57	(+) 1
Education, Sports, Art and Culture	0.82	0.87	0.73	1.00	1.55	(+) 55
Crop Husbandry	1.43	1.43	1.56	1.53	1.70	(+) 11
Other Administrative Services	5.71	2.14	3.18	3.55	2.33	(-) 34
Miscellaneous General Services	-	0.34	25.43	0.52	22.28	(+) 4185
Water Supply and Sanitation	1.11	0.75	0.68	0.62	1.23	(+) 98
Police	16.17	11.15	6.88	14.22	19.86	(+) 40
Interest Receipts	4.56	16.62	26.23	58.93	62.93	(+) 7
Stationery and Printing	0.75	2.30	2.47	1.86	1.75	(-) 6
Animal Husbandry	1.14	1.31	1.54	1.54	1.56	(+) 1
Industries	6.99	8.47	9.25	9.30	9.38	(+) 1
Public Works	1.48	2.09	3.62	3.98	6.17	(+) 55
Village and Small Industries	0.10	0.05	0.06	0.07	0.02	(-) 71
Fisheries	0.54	0.60	0.64	1.27	1.89	(+) 49
Other Rural Development Programmes	0.27	0.13	0.09	0.07	0.03	(-) 57
Others	24.95	9.40	6.31	10.94	10.79	(-) 1
Total	176.85	63.62	94.97	115.41	149.04	(+) 29

* Rs. 43,000 only.

The following reasons for variations were reported by the departments.

- **Miscellaneous General Services:** The increase in the revenue receipts (4,185 per cent) was due to receipt of written off amount of Rs. 22.25 crore from the Government of India on account of debt waiver for the year 2006-07.
- **Fisheries:** The increase in the revenue receipts (49 per cent) was due to increased receipt of royalty from sale of fish and higher selling rate of fingerlings.
- **Police:** The increase in the revenue receipts (40 per cent) was due to sale of 87 condemned vehicles and realisation of outstanding dues from agencies to whom security was provided.
- **Interest receipts:** The increase in the revenue receipts (7 per cent) was due to receipt of more interest on investment of treasury bills with the Reserve Bank of India.
- **Printing and stationery:** The decrease in the revenue receipts (6 per cent) was due to non-collection of outstanding dues.

The remaining departments did not inform (September 2009) the reasons for variation in the receipts of 2008-09 over 2007-08 despite being requested (June 2009).

4.1.2 Initiative for mobilisation of resources

In the budget for 2008-09, the Government proposed revenue collection of Rs. 416.94 crore under tax receipts. The actual collection of Rs. 442.50 crore during the year was more than the budget estimates by Rs. 25.56 crore, which exceeded the amount by six per cent.

4.1.3 Variations between the budget estimates and actuals

The variations between the budget estimates and the actual receipts for the year 2008-09 in respect of some important heads of tax and non-tax revenue are mentioned in the tables below:

Table No. 4.1.4

(Rupees in crore)

TAX REVENUE				
Heads of revenue	Budget estimates	Actuals	Variation: increase (+)/ decrease (-)	Percentage variation over budget estimates
Sales tax	321.64	314.79	(-) 6.85	(-) 2.13
State excise	44.30	48.28	(+) 3.98	8.98
Stamps and registration fees	18.71	17.03	(-) 1.68	(-) 8.98
Taxes on vehicles	28.50	29.82	(+) 1.32	4.63
Land revenue	3.57	5.55	(+) 1.98	55.46
Taxes on agricultural income	0.20	0.18	(-) 0.02	(-) 10.00
Taxes and duties on electricity	0.02	0.02	-	-
Other taxes on income and expenditure	-	25.97	(+) 25.97	-
Other taxes and duties on commodities and services	-	0.84	(+) 0.84	-
NON-TAX REVENUE				
Forestry and Wildlife	5.70	5.57	(-) 0.13	(-) 2.28
Other Administrative Services	3.85	2.33	(-) 1.52	(-) 39.48
Miscellaneous General Services	26.74	22.28	(-) 4.46	(-) 16.68
Interest Receipts	37.72	62.93	(+) 25.21	66.83
Stationery and Printing	2.72	1.75	(-) 0.97	(-) 35.66
Public Works	2.99	6.17	(+) 3.18	106.35
Animal Husbandry	1.70	1.56	(-) 0.14	(-) 8.24
Fisheries	0.71	1.89	(+) 1.18	166.20
Other Rural Development Programmes	0.11	0.03	(-) 0.08	(-) 72.73
Industries	10.20	9.38	(-) 0.82	(-) 8.04
Water Supply and Sanitation	0.82	1.23	(+) 0.41	50.00
Education, Sports, Art and Culture	1.20	1.55	(+) 0.35	29.17
Police	17.50	19.86	(+) 2.36	13.49
Village and Small Industries	0.08	0.02	(-) 0.06	(-) 75.00
Crop Husbandry	1.72	1.70	(-) 0.02	(-) 1.16

The large variations between the budget estimates and actuals in all major heads indicate that the budget estimates for collection of non-tax revenue were not prepared on realistic basis.

The reasons for variations of actuals over budget estimates during 2008-09 as intimated by the respective departments are given below.

The increase in **Fisheries receipts** (166 per cent) was due to increased receipt of royalty from sale of fish and higher selling rate of fingerlings.

The increase in the **interest receipt** (67 per cent) was due to receipt of more interest on investment of treasury bills with the Reserve Bank of India.

The increase in **Police receipts** (13 per cent) was due to sale of 87 condemned vehicles and realisation of outstanding dues from agencies to whom security was provided.

The decrease in **Sales Tax/VAT** (2 per cent) was due to reduction in the price of Petroleum products, whereas the increase in **State Excise** (9 per cent) was due to higher consumption of the liquor.

The decrease in **stationery and printing** (36 per cent) was due to non-collection of outstanding dues.

The remaining departments did not inform (September 2009) the reasons for the large variations despite being requested (June 2009).

4.1.4 Analysis of collection

Break-up of the total collection at the preassessment stage and after regular assessment of sales tax for the year 2008-09 and the corresponding figures for the preceding two years, as furnished by the Commissioner of Taxes, is mentioned below:

Table No. 4.1.5

(Rupees in lakh)

Heads of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection of Taxes ¹	Percentage of collection of column 3 to 7
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Finance Department							
Sales tax/ VAT	2006-07	22,964.06	138.63	4.84	-	23,107.53	99.38
	2007-08	26,106.42	261.37	1.14	-	26,368.93	99.00
	2008-09	31,324.60	153.66	0.76	-	31,479.02	99.51

The collection of sales tax at preassessment stage ranged between 99 and 99.51 per cent during 2006-07 to 2008-09 indicating that tax audit was minimal.

4.1.5 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2006-07, 2007-08 and 2008-09 alongwith the relevant all India average percentage of expenditure on collection to gross collection for 2007-08 are mentioned in the table below.

¹ The figures furnished by the department are at variance with that in the Finance Accounts. The department has not yet reconciled the figures with the Accountant General (September 2009).

Table No. 4.1.6

(Rupees in crore)

Heads of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2007-08
Sales tax / VAT	2006-07	233.45	2.89	1.24	0.83
	2007-08	264.98	3.05	1.15	
	2008-09	314.79	3.59	1.14	
State excise	2006-07	38.41	0.82	2.13	3.27
	2007-08	38.50	0.87	2.26	
	2008-09	48.28	1.09	2.26	
Stamps and registration fees	2006-07	16.61	1.14	6.86	2.09
	2007-08	14.98	1.93	12.88	
	2008-09	17.03	1.68	9.86	
Taxes on vehicles	2006-07	22.51	0.75	3.33	2.58
	2007-08	23.20	0.98	4.22	
	2008-09	29.82	1.05	3.52	

The above table indicates that the percentage of expenditure on collection in respect of Sales tax/VAT, Stamp duty and registration fees and Taxes on vehicles was higher than the all India average cost of collection.

4.1.6 Arrears in assessment

The details of assessments relating to sales tax and taxes on agricultural income pending at the beginning of the year, additional cases becoming due for assessment during the year, cases disposed during the year and cases pending at the end of each year, during the period 2004-05 to 2008-09 as furnished by the department are mentioned in the table below.

Table No. 4.1.7

Year	Opening balance	Cases which become due for assessment	Total	Cases disposed of during the year	Cases pending at the end of the year
2004-05	25,074	7,118	32,192	7,792	24,400
2005-06	24,400	7,384	31,784	12,792	18,992
2006-07	18,992	39	19,031	8,645	10,386
2007-08	10,386	39	10,425	7,682	2,743
2008-09	2,743	39	2,782	2,067	715

4.1.7 Evasion of tax

The details of cases of evasion of tax detected by the departments, cases finalised and the demands for additional tax raised as reported by the department are given below:

Table No. 4.1.8

(Rupees in lakh)

Name of tax/ duty	Cases pending as on 31 March 2008	Cases detected as on 31 March 2009	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc raised		No. of cases pending finalisation as on 31 March 2009
Sales tax	-	91	91	88	17.84	3

4.1.8 Results of audit

Test check of the records of sales tax, land revenue, state excise, motor vehicles, stamps and registration fees, other tax receipts, forest receipts conducted during the year 2008-09 revealed under assessment/short levy/loss of revenue amounting to Rs. 4.45 crore in 51 cases. These were pointed out in the inspection reports issued to the departments.

This chapter contains three paragraphs and two reviews pointing out loss/non-realisation of Tax and Non-Tax revenue of Rs. 19.64 crore. Of which Rs. 17.71 crore has been admitted by the department.

After the cases were reported by audit, the department recovered Rs. 0.03 lakh in one case during 2008-09.

4.1.9 Departmental Audit Committee meetings

During 2008-09, two audit committee meetings were held in which 98 paragraphs contained in 22 Inspection Reports were discussed and 23 paragraphs and two IRs were settled.

4.1.10 Failure to enforce accountability and protect the interest of the Government

The Accountant General (Audit), Tripura arranges to conduct periodical inspection of the various offices of the Government departments to test check the transactions of tax and non-tax revenue receipts and verify the maintenance of important accounting and other records as prescribed in the rules and procedures. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during 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 offices/Government are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly and report compliance through initial reply to the Accountant General within thirty days from the dates of issue of the IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

As of March 2009, 1,360 paragraphs contained in 425 Inspection Reports (IRs) issued upto September 2008 and involving Rs. 94.34 crore remained outstanding. Of these, 127 IRs containing 465 paragraphs involving Rs. 9.40 crore had not been settled for more than 10 years by the Finance Department (sales tax, electricity duty, etc.) and the Forest Department (forest receipts). Even the first replies required to be received from the head of office within 30 days from the date of receipt of the IRs were not received in respect of 642 paragraphs of 145 IRs, issued between March 1994 and March 2009.

The department-wise breakup of IRs and audit observations outstanding as on 31 August 2009 is mentioned below:

Table No. 4.1.9

Department	Position of IRs issued upto September 2008 but not settled at the end of March 2009			Position of IRs and paragraphs not settled for more than 10 years			Position of IRs in respect of which even first reply has not been received from March 1995 to March 2009		
	No. of IRs	No. of paragraphs	Money value (Rs. in crore)	No. of IRs	No. of paragraphs	Money value (Rs. in crore)	No. of IRs	No. of paragraphs	Money value (Rs. in crore)
Finance (Excise and Taxation)									
Sales Tax	86	275	12.25	44	141	2087	21	109	4.62
Professions Tax	0.	04	0.06	-	-	-	02	03	0.06
Stamp Duty and Registration Fees	07	09	0.31	-	-	-	-	-	-
Electricity Duty	182	711	27.06	34	133	0.93	65	298	4.30
Agricultural Income Tax	02	03	-	-	-	-	-	-	-
Amusements Tax	05	9	0.10	-	-	-	01	02	0.03
State Excise	-	-	-	-	-	-	-	-	-
Forest									
Forest Receipts	101	238	17.40	46	177	2.49	29	135	6.77
Revenue (Land Records and Settlement)									
Land Revenue	09	10	0.09	-	-	-	09	10	0.09
Transport									
Motor Vehicles	19	85	35.42	3	14	3.11	14	69	15.28
Total	425	1,360	94.34	127	465	9.40	145	642	32.36

The above position indicates the failure of the departments concerned to initiate action in respect of the defects, omissions and irregularities pointed out in the IRs. The Principal Secretaries/Secretaries of the departments are informed of the position on 1st June each year through annual statement of outstanding IRs and paragraphs.

4.1.11 Response of the departments to draft audit paragraphs

Three paragraphs and two reviews contained in this report were forwarded during June to August 2009 to the secretary of the administrative departments concerned demi-officially seeking confirmation of facts and figures as well as their comments within six weeks. Replies of the Government to two paragraphs and one review have not been received (September 2009).

4.1.12 Internal audit

Finance (Excise and Taxation) Department had not established an internal audit wing for auditing the revenue receipts of the State Government (October 2009). Since internal audit is an effective tool in the hands of the management of an organisation to assure itself that the organisation is functioning in an efficient manner and in terms of its stated objectives, the Government may consider establishing the system of internal audit.

4.1.13 Follow up on Audit Reports – summarised position

11 reviews and 123 audit paragraphs had featured in Audit Reports 1988-89 to 2007-08. Nine out of the 11 reviews and 98 out of 123 paragraphs had been discussed by

the PAC as of August 2009. Against nine reviews and 98 paragraphs already discussed in the PAC, only 43 ATNs (six against the reviews and 37 against the paragraphs) on the recommendations of the PAC had been received.

4.1.14 Compliance with the earlier Audit Reports

During the years 2003-04 to 2007-08, the departments/Government accepted the audit observations involving Rs. 12.39 crore out of which an amount of Rs. 15.72 lakh had been recovered till September 2009. The details are mentioned below:

Table No. 4.1.10

(Rupees in lakh)

Sl. No.	Year of the Audit Report	Total money value of the paragraphs of Receipt Audit	Money value accepted by the State Government	Recovery made
1.	2003-04	726.40	624.40	15.01
2.	2004-05	25.06	25.06	0.71
3.	2005-06	82.15	65.71	Nil
4.	2006-07	127.96	103.78	Nil
5.	2007-08	667.00	420.00	-
Total		1,628.57	1,238.95	15.72

FINANCE (EXCISE AND TAXATION) DEPARTMENT

4.2 Review on 'Transition from Sales Tax to Value Added Tax'

Highlights

An amount of Rs. 85.37 lakh remained unrealised due to non-settlement of 57 cases pending with the Tribunal.

(Paragraph 4.2.6.2)

Due to non-existence of a system to ensure submission of returns by the registered dealers, defaulting dealers ranged between 32.14 *per cent* and 47.14 *per cent* during 2005-06 to 2008-09. No time frame was fixed in the Rules of TVAT for scrutiny of the returns.

(Paragraph 4.2.9.1)

Only 232 dealers (1.67 *per cent*) were selected for tax audit in 2005-06. Thereafter no selection has been done, as no provision exists in the TVAT Act or Rules, stipulating percentage and method of selection of dealers for tax audit.

(Paragraph 4.2.10.1)

Due to non-finalisation of cases pending with the Revision Authority an amount of Rs. 4.37 crore remained unrealised in 76 assessment cases pertaining to different years. No time frame was stipulated in the TVAT Act or Rules for completion of appeal and revision cases.

(Paragraph 4.2.14)

An amount of Rs. 39.23 lakh was short deposited by 64 dealers against 3,072 number of returns test checked.

(Paragraph 4.2.18.1)

4.2.1 Introduction

The Government of India decided to implement VAT (Value Added Tax) after a meeting of Empowered Committee on 23rd January 2002.

The white paper on VAT envisaged *inter alia*, that

- it would eliminate cascading effect due to credit of tax paid on purchase for resale or for use in production;
- other taxes will be abolished and overall tax burden will be rationalised;
- overall tax would increase and there will be higher revenue growth; and
- there would be self assessment by dealers and set off will be given for input and tax paid on previous purchases.

The Government of Tripura (GOT) repealed the Tripura Sales Tax (TST) Act, 1976 and enacted the Tripura Value Added Tax (TVAT) Act, 2004 with effect from 1st April 2005.

Some of the differences between the existing TVAT Act and TST Act were as under:

- TVAT is a multi point tax system while sales tax was a single point tax system;
- TVAT system relies more on the dealers to pay the tax wilfully and submit the returns and deemed self assessment. However, in TST system supporting documents are required to be submitted along with the returns;
- No percentage check is provided in the TVAT Act, while cent *per cent* cases were assessed in the TST Act; and
- Reduced control of the executive on the dealers in TVAT while many other taxes are there in TST.

Salient feature of TVAT Act

Under TVAT Act and Rules, five different tax rates are prescribed with seven schedules. All dealers registered under the Act are liable to pay tax on the sale value of taxable goods at every stage of sale of those goods till it is sold to the consumer, at a rate specified in the schedule of the Act, other than dealers whose turnover during a period of 12 months immediately preceding the commencements of the Act do not exceed Rs. 3 lakh. No dealer while being liable to pay tax, shall carry on business as a dealer unless he has been registered and possesses a certificate of registration. Every dealer registered under the Act would be assigned with a unique “Tax payers’ Identification Number (TIN)”. Unlike the sales tax regime there is no statutory assessment of the dealer, instead the Act provides that the Commissioner of Taxes (CT) shall, under Sub Section (1) of Section 28 of the Act, select the dealers for Tax Audit.

Transition from sales tax to VAT in Tripura was reviewed in audit and a number of deficiencies as discussed in the subsequent paragraphs were noticed.

4.2.2 Organisational set up

The receipts from Value Added Tax (VAT) are administered by the Commissioner of Taxes (CT) under the administrative control of the State Finance Department. The CT is assisted by two Deputy Commissioner of Taxes (DCT) and three Assistant Commissioner of Taxes (ACT). There are eleven charges at Agartala, each headed by a Superintendent of Taxes (ST). Of the STs, two look after vigilance and one is in charge of the Public Relation Cell. In addition, there are seven charges² in other districts/sub-division headquarters headed by STs and one ST is posted in Chaurabari Check Post, the entry point to the State.

² Ambassa, Belonia, Bishalgarh, Dharmanagar, Kailasahar, Teliamura and Udaipur.

Under the TVAT Act, the Superintendents of their respective charges are entrusted with the registration, assessment, collection of tax and receipts of returns in respect of TIN dealers.

4.2.3 Audit objectives

The review was aimed to ascertain whether the

- Planning for implementation and the transition from the ST Act to VAT Act was effected timely and efficiently;
- Organisational structure was adequate and effective;
- Provisions of the VAT Act and Rules made thereunder were adequate and enforced properly to safeguard the revenues of the State;
- The internal control mechanism existed in the Department and was adequate and effective to prevent leakage of revenue; and
- Checking the status of the system after being in place for three years.

4.2.4 Scope and methodology of audit

The review was conducted between May and July 2009 in the office of the Commissioner of Taxes and 11³ out of 15 charge offices (which deal with assessment etc., of dealers). The selection of the charge offices was made on the basis of Simple Random Sampling Without Replacement (SRSWOR) covering the period from 2005-06 to 2008-09. The information collected from the Department, replies to questionnaires and the audit memos issued during inspection and site visits etc., formed the basis of audit evidence and findings.

4.2.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation extended by the Principal Secretary, Finance Department and the departmental officials during the course of the review. An entry conference was held on 2 April 2009 with the Principal Secretary to the Government of Tripura, Finance Department in which the audit objectives, scope and methodology were explained. The findings of the review were forwarded to the department/Government on 12 August 2009 and discussed in an exit conference held on 7 October 2009. The responses of the Department received during the discussion and at other points of time, have been incorporated in the report at appropriate places.

Audit findings

4.2.6.1 Pre-VAT and post-VAT tax collection

The comparative position of pre-VAT sales tax collection (2002-03 to 2004-05) and post-VAT (2005-06 to 2007-08) tax collection and the growth rate in each of the years is furnished below.

³ Ambassa, Charge I to VIII of Agartala, Teliamura and Charges at Udaipur.

Table No. 4.2.1

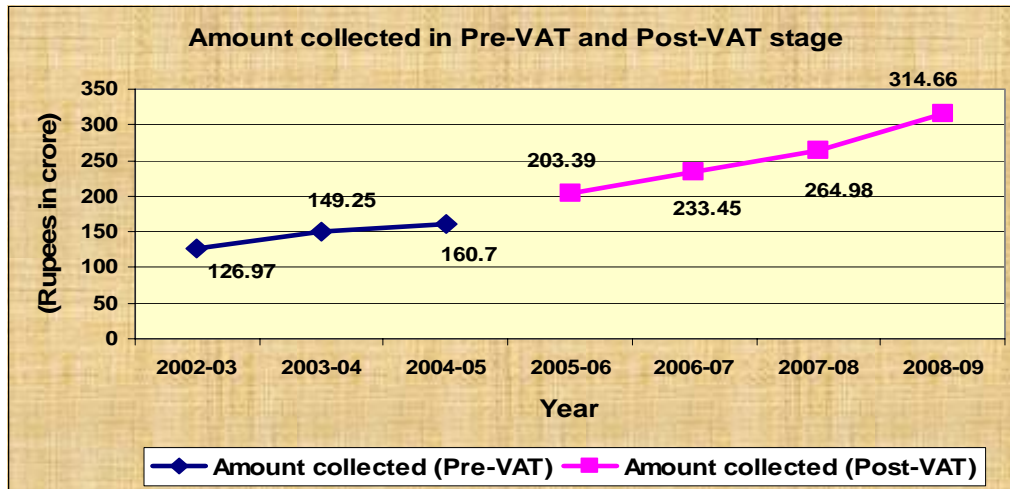
(Rupees in crore)

Pre-VAT			Post-VAT		
Year	Actual collection	Percentage growth	Year	Actual collection	Percentage growth
2002-03	126.97	20.01	2005-06	203.39	26.57
2003-04	149.25	17.55	2006-07	233.45	14.78
2004-05	160.70	7.67	2007-08	264.98	13.50
			2008-09	314.66 (Provisional)	18.75

Source: - Departmental figure.

The pre-VAT and post-VAT tax collection is depicted in the chart below:

Chart No. 4.2.1



The average growth rate during 2002-03 to 2004-05 was 15.08 per cent while the average growth rate for 2005-06 to 2007-08 was 18.28 per cent. Thus, the average growth rate increased during the period 2005-08 after the implementation of VAT.

4.2.6.2 Pending cases with Tribunal

The year-wise position of pending cases in Tribunal is shown in the table below:

Table No. 4.2.2

(Rupees in lakh)

Year	Opening balance		Addition during the year		Total		Disposal during the year		Total cases pending as on 31 st March 2009	
	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved
2005-06	50	82.70	19	12.85	69	95.55	Nil	Nil	69	95.55
2006-07	69	95.55	17	5.47	86	101.02	28	14.71	58	86.31
2007-08	58	86.31	2	Nil	60	86.31	Nil	Nil	60	86.31*
2008-09	60	86.31	Nil	Nil	60	86.31	3	0.94	57	85.37

Source : Departmental figures.

* 2 new cases with no involvement of amount as the excess tax paid adjusted, but under dispute

As on March 2009, an amount of Rs. 85.37 lakh remained unrealised due to non-settlement of 57 cases pending with the Tribunal.

The Department did not intimate audit about any remedial action taken to improve the position (October 2009).

System deficiencies

4.2.7.1 Preparedness and transitional process

Value Added Tax was initially introduced in Tripura through Ordinance No.1 of 2005 dated 17 February 2005 and finally TVAT Act, 2004 was enacted by the Tripura Legislative Assembly on 27 April 2005. Before the implementation of the new regime, the TVAT Act and Rules made thereunder were given wide publicity and the staff/officers in the Department were imparted training. However, the requirement of the staff was not worked out, which resulted in poor implementation of TVAT as discussed in the succeeding paragraphs.

4.2.7.2 Computerisation of the Taxation Department and the check gates and their interlinking

The Government of India made an agreement with M/S Tata Consultancy Services (TCS) to computerise the VAT system implemented in the North East States including Tripura with effect from 1 April 2005. The objectives were to facilitate computerisation of registration of dealers under VAT and CST, computerisation of check gates and related monitoring of inter State movement of goods, processing of returns, challans etc. The VAT and CST Management System (VCMS) is a web based system and the project is fully funded by the GOI. There are 16 modules available in the system. Of these, six⁴ modules are not being used due to lack of training, hardware etc., as informed (May 2009) by the Department to the Government of India. Thus, the project is yet to be fully implemented throughout the State even after four years of introduction of VAT.

The Government may consider taking steps for implementation of all the modules and to provide necessary training to its staff.

Out of eleven units test checked in audit, it was noticed that VCMS facilities have not been extended to Agartala, Charge VIII and Teliamura. The VCMS server located at Guwahati, is accessed by the State through VSAT Link. The State Government has not been authorised to access to the VCMS database server. As a result the Department could not provide database to audit for analysis though demanded. On this being pointed out, the Department stated (November 2009) that most of the States in North East act as user only with restricted access.

Several returns and reports are required under TVAT Act and Rules but during test check it was seen that VCMS failed to generate some of the important reports⁵ which were essential for day to day work. It was also seen that data entries were being made into the system only after collection of related information/data manually, defeating the purpose of computerisation.

⁴ Assessment, Appeal, Field Enquiry, Refund, Recovery and Vigilance.

⁵ Cancellation of Registration, Dealers turnover exceeding Rs. 40 lakh, Field Enquiry, Return Defaulter, Return information, Statutory Form and Unused TINS.

The Government may take necessary steps to provide full access to the modules developed.

4.2.7.3 Date of implementation of VAT

The VAT was initially introduced in Tripura through Ordinance No.1 of 2005 dated 17 February 2005 and finally Tripura Value Added Tax Act, 2004 was enacted by the Tripura Legislative Assembly on 27 April 2005 and was effective from 1 April 2005. Tripura Value Added Tax Rules, 2005 was published and notified in the Gazette on 27 April 2005.

4.2.7.4 Creation of manuals and training of the staff

Department did not prepare any Manual for guidance of the officials responsible for dealing with the activities of VAT after its introduction, in the absence of which it was difficult for them to cope up with the unique requirements of the new regime. They were also not imparted any training and no suitable arrangements for constituting internal check parties were made. All these had an adverse impact on the transitional process and proper monitoring of the functioning of the TVAT.

The Government may consider preparing a manual for day to day activities of the Department and imparting training to its staff for effective implementation of the provisions of the TVAT Act and Rules.

4.2.8 Registration and database of the dealers

4.2.8.1 Creation of database of the dealers

Section 60 (1) of TVAT Act, provides that the Commissioner shall from time to time cause a survey of the unregistered dealers to identify the dealers who are liable to pay tax under the Act, but have remained unregistered.

Audit noticed that no survey was conducted by the Department after the implementation of VAT to ascertain the unregistered dealers and update the database. On this being pointed out, the Department stated (July 2009) that the survey was conducted before introduction of VAT but the survey report was not readily available with it. Despite repeated requests the Department could not produce the report and audit could not, therefore, verify the claim.

4.2.8.2 Carrying forward of the database of the dealers under the repealed Acts and confirmation of the new dealers

During pre-VAT period, when registration was done manually, the Department did not maintain database of the dealers. However, it was seen in audit that all the dealers registered under Sales Tax regime were re-registered under VAT.

4.2.8.3 Registration of new dealers

The database of the dealers registered in the last five years is as below:

Table No. 4.2.3

Year	Total number of ST/TIN dealers	Percentage increase
2004-05	7,242	-
2005-06	13,870	91.52
2006-07	13,997	0.92
2007-08	14,947	6.79
2008-09	15,555	4.07

Source: Departmental figures.

Responding to an audit query, the Department replied (August 2009) that raids were conducted from time to time in the business premises to get the dealer registered whose turnover in any period exceeded Rs. 3 lakh.

4.2.8.4 Periodic analysis of the dealers below threshold limit

Periodic raids were conducted in the business premises of the dealers to determine whether any dealer crossed the threshold limit of turnover of Rs. 3 lakh at any point of time and to detect the unregistered dealers. However, in none of the eleven STs audited, registers were maintained to record the date of raid, name of business premises, result of raid etc. Further, no mechanism existed for periodic review of the dealers paying composite tax and to verify the turnover to pre-empt any scope of evasion of tax.

4.2.8.5 Periodic analysis of registration certificates to detect dormant registrations

No records were available in the Department to show whether periodic reviews of the registration certificates were conducted to detect unused TINs. Unused TINs could also not be verified from the VAT and CST⁶ Management System (VCMS) due to non-availability of such information in the database.

The Government needs to ensure that all the eligible dealers are registered under the new regime.

Deficiencies in the Act and the Rules

The review indicated a number of deficiencies in the provisions of the VAT Act and the Rules, which persisted during the period covered under the review. Some of the important deficiencies are discussed below.

4.2.9 Returns

4.2.9.1 Mechanism to monitor filing of the returns

Under Section 24 of the TVAT Act, every registered dealer shall furnish a return in such form for such period, by such dates and to such authority as may be prescribed.

The position of submission of the returns during the period from 2005-06 to 2008-09 is shown in the table below:

⁶ Central Sales Tax.

Table No. 4.2.4

Year	Total number of TIN dealers	Number of TIN dealers who did not file returns	Percentage of dealers who did not file returns
2005-06*	13,870	4,458	32.14
2006-07	13,997	5,326	38.05
2007-08	14,947	5,363	35.88
2008-09	15,555	7,333	47.14

Source: Departmental figures.

*Prior to introduction of VAT, total number of the registered dealers was 7,242.

Audit indicated that no system existed to ensure submission of returns by all registered dealers. Also, the timeframe for submission of the returns has not yet been prescribed. Due to these deficiencies, the Department could not monitor filing of returns effectively.

4.2.9.2 Scrutiny and verification of the returns

Under Section 27 of the TVAT Act, each and every return is to be scrutinised by the assessing authority. However, audit scrutiny indicated that no time frame has been fixed by the TVAT Act or Rules framed thereunder or the Department for scrutiny of the returns. From the table below, it would be seen that large number of the returns were not scrutinised, reasons for which were not stated by the Department.

Table No. 4.2.5

Year	Number of returns due for submission	Number of returns received	Number of returns scrutinised	Percentage of returns scrutinised	Number of cases pending scrutiny as on 31 st March (percentage)
2005-06	39,021	25,746	5,077	19.71	20,669 (80.29)
2006-07	37,390	28,550	5,713	20.01	22,837 (79.99)
2007-08	33,895	31,542	7,330	23.23	24,212 (76.77)
2008-09	40,347	25,129	7,473	29.74	17,656 (70.26)
Total	1,50,653	1,10,967	25,593	-	85,374 (76.94)

Source : Departmental figure

It is evident from the above table that during the last four years, 85,374 returns were left without scrutiny at the end of 31 March 2009 and the percentage of deficit was as high as 76.94 per cent.

The Government in the exit conference (October 2009) stated that within limited manpower, concerted efforts would be taken to clear the pending cases at the earliest.

The Government may consider prescribing a time frame for filing of the returns and verification thereof.

4.2.10 Tax audit

4.2.10.1 Process of selection of the dealers for tax audit

No provision has been made either in the TVAT Act or Rules regarding process, criteria or percentage of selection of the dealer and time frame for completion for tax audit, thus leaving scope of discretionary picking up of cases with consequential adverse implications.

The details of the dealers selected for tax audit after the implementation of TVAT is summarised in the table below.

Table No. 4.2.6

Year	Total number of registered dealers	Dealers selected for Tax audit	Percentage of dealers selected	Number of cases completed	Pending cases as on 31.3.09	Percentage of pending cases
2005-06	13,870	232	1.67	138	94	41
2006-07	13,997	Nil	Nil	Nil	Nil	Nil
2007-08	14,947	Nil	Nil	Nil	Nil	Nil
2008-09	15,555	Nil	Nil	Nil	Nil	Nil

Source : Departmental figure

From the above table, it would be seen that abysmally low i.e. 232 (1.67 *per cent*) numbers of dealers were selected for tax audit for the assessment year 2005-06. Against this, 94 (41 *per cent*) cases still remain pending for tax audit as on 31 March 2009. Thereafter, no selection has been made during the years 2006-07 to 2008-09.

4.2.10.2 Time frame for completion of tax audit

No time frame has been fixed for completion of tax audit either in the Act or Rules, leaving scope for unreasonable delay in completion thereof and consequent loss of the revenue.

Out of 232 dealers selected for tax audit (from 13,870 dealers registered for the year 2005-06), audit was completed only in 138 cases as on 31 March 2009. As such, 13,732 (99.01 *per cent*) dealers remained out of the purview of the said audit even after three years of their registration.

Out of 138 tax audit cases completed by the Department, 31 were test checked in audit, which indicated that in all these cases, the Department had detected underassessment and raised additional demand of Rs. 12.87 lakh. The additional demands arose due to wrong interpretation of provision of the rules, irregular input credit of tax and escaping of turnover of the dealers from tax. Thus, possibility of loss of revenue from non-assessment of unselected 98.33 *per cent* of dealers for tax audit could not be ruled out.

As per Section 33 of TVAT Act, no assessment in tax audit shall be made after the expiry of five years from the end of the tax period to which the assessment relates. Thus, assessment of dealers for the year 2005-06 cannot be made after 31 March 2011. Non-assessment of these dealers through tax audit within 31 March 2011 could thus result in non-realisation of huge revenue of the State.

The Government stated (October 2009) in the exit conference that a system for selecting cases for tax audit on a regular basis, would be put in place.

The Government may consider stipulating a percentage, criteria for selection of the dealers and time frame for completion for tax audit.

4.2.11 Input tax credit

4.2.11.1 Deficiencies in the return forms

No provision has been made in the TVAT Act and Rules for furnishing copies of treasury challans in support of input tax credit on account of payment of tax by a third party. In absence of such provision, adequate verification and cross verification is not possible. Test check of 192 returns furnished by the dealers indicated that input tax credit (ITC) of Rs. 41,000 claimed by four dealers in their returns were allowed by the Department even though the dealers did not furnish, alongwith their returns, tax invoice in support of input tax credit, copies of treasury challans in support of input tax credit.

Thus, due to non-submission of the aforesaid documents, cross verification of the sales made by the dealer(s) from whom goods were purchased could not be made.

The Department stated (July 2009) that all necessary documents required for availing input tax credit would be examined at the time of assessment. Fact, however, remains that the essence of VAT is based on self assessment and these returns are final unless taken up for tax audit, the percentage of which is negligible as pointed out in paragraph 4.2.10. Thus, the returns should be self sufficient in the best interest of revenue. Besides, as per Section 33 of TVAT Act, no assessment shall be made after the expiry of five years from the end of the tax period to which the assessment relates. Hence, the reply of the Department is neither tenable nor implementable.

The Government may consider making it mandatory for the dealers to submit documents like tax invoice, copies of treasury challans along with the returns to make them self sufficient.

4.2.12 Deficiencies in uploading data in TINXSYS

Tinxsys website serves as repository of the inter State transaction and mainly aimed at helping commercial tax departments to effectively monitor inter State trade. The test check of the website indicated the following TINXSYS State Report.

Table No. 4.2.7

Reports	Result on verification
Status of Interconnectivity and Data Extraction	Correct data extracted showing nil status
Report on Data Availability	No data is available
Report on State wise usage	No. of visit - six and hours spent – 'nil'
Generate MIS reports	No MIS reports generated
View last updated date of CST dealers by various States	Data relating to Tripura is not available
View last updated date of Central Statutory Forms by various States	No data is available

The Government may ensure continuous updating of the information relating to the dealers of Tripura to make the website useful and informative.

4.2.13 System of sending the details of works contract/purchases by the Works/buying Departments to the Taxation Department

Sub-section (6) of Section 7 of the TVAT Act provides for submission to the Superintendent of Taxes, having jurisdiction over the area, a report of such deduction within 15 days from the date of deposit of such amount in Form XI.

This could not be verified in audit as no such record was maintained by the Department.

4.2.14 Acceptance and settlement of revision and appeal cases

Two Assistant Commissioners of Taxes⁷ have been vested with the powers of appellate authority in respect of all the charges under the control of Commissioner of Taxes in Tripura.

As on 31 March 2009, Rs. 4.37 crore remained unrealised in 76 assessment cases pertaining to different years due to non-finalisation of cases pending with the revision authority. Age-wise positions of pending cases with the revision authority are given in the table below.

Table No. 4.2.8

(Rupees in crore)

Period for which pending	No. of dealers	Total number of assessment years involved	Amount involved
One month to 6 months	3	5	0.04
for one year	1	1	0.02
for two years	4	4	0.92
for three years and above	69	206	3.39
Total	76	216	4.37

For admittance of the appeal cases, dealers had to deposit 50 *per cent* of assessed dues and penalty as provided under sub-section (2) of Section 70 of TVAT Act. As on 31 March 2009, Rs. 32.27 lakh remained unrealised in 25 cases due to non-finalisation of cases pending with the appellate authority as detailed in the table below.

Table No. 4.2.9

(Rupees in lakh)

Year	No. of cases pending	Additions during the year	Cases disposed during the year	No. of cases pending at the end of 31 st March	Amount involved
2005-06	14	190	184	20	1.20
2006-07	20	119	133	06	26.32
2007-08	06	149	147	08	2.21
2008-09	05	91	71	25	32.27

Audit noticed that neither the TVAT Act nor the Rules stipulates any time limit for completion of appeal and revision cases.

The Government may consider prescribing procedures and time frame for the disposal of appeals and revisions in the interest of revenue.

⁷ ACT 1 = Charge I to IV, VI to VIII, Kailashahar and Udaipur.
ACT 2 = Charge V and Dharmanagar.

4.2.15 Internal control

4.2.15.1 Maintenance of registers in unit offices

No provision has been made either in the TVAT Act or Rules for maintenance of registers in unit offices. However, it was seen that unit office maintains demand and collection register and dealers' registration register.

4.2.15.2. Provisions for compilation of reports/returns received from unit offices and submission to the Commissioner for monitoring

No provision has been made either in the TVAT Act or Rules for submission of reports/returns. However, it was noticed that in the monthly meetings, all the Superintendent of Taxes submit the following reports/returns to the Commissioner of Taxes.

- (a) Collection during the month
- (b) Dealers' position
- (c) Assessment done during the month
- (d) Progressive collection upto the month
- (e) Position of certificate case.

The Government may prescribe maintenance of various registers at the unit level from which the information on the reports/returns as stated above would flow. Also, they may prescribe periodic reports/returns by the unit offices which would make the management information system more effective.

4.2.16 Audit of Accounts

Sub-section (1) of section 53 of TVAT Act provides that the Commissioner may, by notification in the official Gazette, specify that the dealers whose gross turnover in a year exceeds Rs. 40 lakh get his accounts in respect of that year audited by an accountant within six months from the end of the year and a true copy of such report shall be furnished by such dealer to the Commissioner by the end of the month after expiry of the period of six months during which audit had been completed.

However, no such notification has yet been issued since implementation of TVAT Act. Besides, it has been verified in audit that the VCMS application in the system cannot generate the list of dealers whose turnover exceeds Rs. 40 lakh. Thus, even if the notification is issued, it will be difficult for the Department to ascertain the number of dealers who are liable to submit audited accounts.

The Government may expedite the process of issuing the notification making it mandatory for the dealers having turnover above Rs. 40 lakh to furnish audited accounts which would render a first point check on evasion of tax.

4.2.17 Internal audit

4.2.17.1 Existence of internal audit

One Directorate of Local Audit (DLA) at present functions in Tripura for conducting internal audit of the State Government Departments. The Department does not have its own internal audit.

4.2.17.2 Coverage of internal audit

The DLA has conducted the expenditure audit of only the office of the Commissioner of Taxes during the period covered under the review.

Since only a few returns would be taken up for detailed scrutiny in tax audit, the Government may consider setting up of a separate internal audit wing fully dedicated to scrutiny of returns and other aspects of functioning of the VAT administration.

Compliance deficiencies

4.2.18.1 Short deposit of tax and interest

Rule 18 of TVAT Act stipulates submission of various documents with the returns. However, test check of 3,072 returns indicated that most of the dealers did not submit along with their monthly/quarterly returns, the closing balance of stock, vouchers of goods purchased from local dealers, input credit accounts for availing input credit tax, TIN of the selling dealer(s) for cross verification of the selling dealer's authenticity etc. Further, it was noticed that in none of the 3,072 returns test checked, action was taken against any dealer for non-submission of the aforesaid documents.

During test check of 3,072 returns involving 64 dealers, it was noticed that Rs. 39.23 lakh had been short deposited by the dealers. Short deposits were mainly due to irregular availing of input credit tax due to calculation mistake, short deposit of interest for delayed payments and non-levy of penalty for delayed submission of the returns/revised returns.

4.2.18.2 Inadequate documentation

Provisions have been made in the Act and Rules for declaring details of the selling dealers in Form 37. However, test check of the returns indicated that in most of the cases, details of the selling dealers, i.e. TIN number, name of selling dealer etc were not mentioned in the return.

Rule 33 of the TVAT Act provides that one copy of challan retained by the treasury or sub-treasury or bank shall be transmitted to the Superintendent on the following day of the payment. Every treasury and sub-treasury or bank officer shall send an advice list to the superintendent of the area within the 7th day of every month showing the amounts received in the previous month. The advice list shall contain the challan number, date, the name of the dealer and the amount paid.

Necessary cross checking of the amounts deposited could not be done by the Department as none of the eleven audited charges received bank scrolls from the concerned banks since inception of TVAT till 31 March 2009.

Other points of interest

4.2.19 Provisional Assessment

Sub-section (1) of Section 30 of TVAT Act provides that where a registered dealer fails to furnish the return in respect of any tax period within the prescribed time, the Commissioner shall, notwithstanding anything contained in Section 31, proceed to assess the dealer provisionally for the period of such default.

Though there were huge number of returns pending submission as shown in paragraph 4.2.9.1, only two dealers have been taken up for provisional assessment raising additional demand of Rs. 6,999 upto 31 March 2009.

4.2.20 Conclusion

Transition from Tripura Sales Tax to Tripura Value Added Tax had suffered due to several deficiencies in transition process mainly due to gaps in the Act and Rules thereof and non-compliance of provisions. There was lack of planning which resulted in ineffective implementation even after more than four years of introduction of VAT in the State. As a result, the Department could neither achieve the target for collection of taxes nor provide any assurance that all eligible dealers have been registered under the new regime. The TVAT Act and Rules thereunder have many deficiencies as provisions have not been made for selection process for assessment and stipulated period for completion of tax audit once taken up. Tax audit, a vital part of Tax Administration, was almost non-functional. The quantum of tax audit selection and completion was insignificant in comparison with the total number of registered dealers.

4.2.21 Summary of recommendations

The Government may consider the following recommendations to rectify the system and compliance deficiencies to:

- prepare a manual for day to day activities of the Department for post-VAT period and impart necessary training to its staff;
- undertake periodic surveys to ensure that all the eligible dealers are registered under the new regime;
- provide a time frame for filing of returns and verifications thereof;
- make it mandatory to submit documents like tax invoice, copies of treasury challans along with the returns;
- ensure updating the information relating to the dealers of Tripura to make the website successful;
- stipulate percentage, criteria for selection of dealers and time frame for completion of tax audit;

- set procedures and time frame for disposal of Appeals and Revisions;
- prescribe maintenance of various registers at the unit level and submission of reports/returns by the unit offices; and
- address the system deficiencies in the Act and Rules to maximise revenue collection of the State.

INDUSTRIES AND COMMERCE DEPARTMENT (Geology and Mining)

4.3 Review on 'Receipts from mines and minerals'

Highlights

Inordinate delay in processing of lease applications resulted in non-realisation of potential revenue of Rs. 39.24 crore.

(Paragraph 4.3.7.1)

Arbitrary quantification of allowable utilisation of natural gas in mining operation led to non-realisation of revenue of Rs 16.05 lakh.

(Paragraph 4.3.8)

Non-levy of surface rent resulted in non-realisation of revenue of Rs. 4.21 crore.

(Paragraph 4.3.10)

Non-levy of the interest and penalty on delayed payment of the royalty resulted in non-realisation of Rs. 12.57 lakh.

(Paragraph 4.3.11)

Non-application of revised price for computation of the royalty on Natural Gas supplied to the Tripura Natural Gas Company Limited (TNGCL) during 2006-07 to 2008-09, led to a short payment of the royalty of Rs. 12.29 lakh.

(Paragraph 4.3.12)

Short payment of the royalty on casing-head condensates produced in mining operation resulted in non-realisation of revenue of Rs. 28.07 lakh.

(Paragraph 4.3.13)

Non-enforcement of provisions of lease agreement resulted in non-realisation of revenue of Rs. 14.12 crore.

(Paragraph 4.3.14)

Non-payment of the royalty on full quantity of natural gas extracted by Oil and Natural Gas Corporation Limited (ONGCL) during 2006-07 to 2008-09, reflected in the monthly return of production, resulted in short realisation of revenue of Rs. 2.22 crore.

(Paragraph 4.3.15)

The Department failed to undertake surveillance of the leased mines to guarantee lawful exploration and environmental protection.

(Paragraph 4.3.16)

4.3.1 Introduction

Tripura is endowed with large deposits of natural gas with an accretion of 59.423 billion cubic meters (BCM) (ultimate reserve of 35.00 BCM). The exploration success ratio is 1:2 which is higher than (40 *per cent* and 25-30 *per cent* in case of Gujarat and Assam respectively) other major natural gas sources in the country. Prospecting and mining of minerals (as of now natural gas only), assessment, levy and collection of royalty and other mining revenue are governed by the Central Act and Rules *viz.* (i) Mines and Minerals (Development and Regulation) (MMDR) Act, 1957 (ii) The Mineral Concessions (MC) Rules, 1960 (iii) The Mineral Conservation and Development (MCD) Rules, 1988 and (iv) The Petroleum and Natural Gas (PNG) Rules, 1959. State Government had not enacted any set of Act and Rules for regulation of receipts of mines and minerals in the State.

The receipts from mines and minerals comprise application fees for mining lease/prospecting licence, royalty, dead rent, surface rent, fines/penalties and interest for belated payment of dues. As of March 2009, there were five⁸ Petroleum Exploration Licences (PEL) comprising an area of 6,308.42 sq km and 11⁹ Petroleum Mining Leases (PML) covering a lease area of 76.57 sq km (held by Oil and Natural Gas Corporation Limited (ONGC) except one¹⁰ PEL). Subsequently, approval of the Ministry of Petroleum and Natural Gas (MoPNG), Government of India for another seven¹¹ PML to ONGC comprising lease area of 1,221.14 sq km have since been obtained and executed (March 2009). The total leased area as on 31 March 2009 is 1,297.71 sq km¹², which is 12.37 *per cent* of the total State area of 10,491.69 sq km.

4.3.2 Organisational set up

Industries and Commerce Department (ICD), Government of Tripura controls the mining activities in the State. ICD is headed by a Principal Secretary and at the department level by a Director. The Director is assisted by an Assistant Director of Industries and Commerce, one Manager (Industries), one Surveyor, one Superintendent (General) and two other non-technical staff.

4.3.3 Scope of audit

Audit test checked records maintained in the Geology and Mining Cell of ICD in respect of all five PELs and 11 PMLs relating to the period from 2004-05 to 2008-09, during May-June 2009.

⁸ (i) Large area (ii) NELP 3rd round (iii) NELP 4th round (iii); (iv) North Agartala (v) West Tripura.

⁹ Agartala Dome (2), Baramura (4), Konaban (2) and Rokhia (3).

¹⁰ M/s Jubilant Oil & Gas Pvt. Ltd. in partnership with GAIL holds one PEL for 1680 sq km.

¹¹ Agartala Dome, Baramura, Gajalia, Konaban, Manikyanagar-Sonamura extension, North Tripura and Tichna.

¹² 76.57 sq km + 1,221.14 sq km.

4.3.4 Audit objectives

The review was conducted to ascertain whether:

- the provisions of the Acts/Rules were properly observed in execution of the licences/leases,
- the rules and regulations governing realisation of receipts were complied with,
- adequate safeguard exists for detection of incorrect reporting of production and removal of natural gas, failure in payment of correct royalty and follow up action ensuring instances of such defaults are pursued to their logical conclusions, and
- effective internal control mechanism existed for monitoring the functioning of the Department and to prevent leakage of revenue.

4.3.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the co-operation of the Industries and Commerce Department in providing necessary information and records for the review. The review started with an entry conference with the Principal Secretary, Industries and Commerce Department, Government of Tripura and other departmental officers on the 6th April 2009 in which the audit objectives scope of audit and methodology were explained. Audit findings were discussed with the Department in an exit conference on the 5th August 2009. The departmental replies on audit observations were incorporated at appropriate places.

Audit findings

4.3.6 Trend of revenue

The main source of revenue from mines and minerals are fees and rents on account of PEL and PML, besides royalty at the rate of 10 *per cent* of the price fixed by the Central Government from time to time on natural gas extracted/mined at well head.

The budget estimates (BEs), actual receipts (ARs) and the variations between the BEs and the ARs of the ICD for the last five years are shown in table below:

Table No. 4.3.1

(Rupees in crore)

Year	Budget estimates (BEs)	Actual receipts (ARs)	Variation between BEs and ARs	Percentage increase (+) decrease (-)
2004-05	8.00	6.99	(-) 1.01	(-) 12.63
2005-06	6.50	8.47	(+) 1.97	(+) 30.31
2006-07	7.00	9.25	(+) 2.25	(+) 32.14
2007-08	16.0	9.30	(-) 6.70	(-) 41.88
2008-09	20.10	9.34	(-) 10.76	(-) 53.53

Source: (1) Annual Financial Statements (2) Departmental records.

The above table shows variation between the BEs and the ARs ranging between 13 to 54 *per cent*. Audit scrutiny indicated that the forecast was not based on any study of past trends or future potentials. The BEs are fixed by the Finance Department and the administrative department does not have any mechanism to determine BEs. There was

no evidence that the budgeting of mining receipts is done by the department in a scientific manner to optimise mining revenue and to prevent revenue losses.

System deficiencies

4.3.7 Delay in processing lease applications

State Government grants petroleum mining lease (PML) to the applicants with prior approval of MoPNG for an initial period of 20 years subject to renewal for further periods.

As per provisions of the MC Rules, the Government is required to dispose of the application for grant of a mining lease within 12 months from the date of its receipt.

Audit scrutiny (June 2009) indicated that there was no system of monitoring the timely settlement of the lease applications at any level. ICD neither maintained any records nor were any reports/returns prescribed to be furnished to the Government to monitor the receipt, settlement and pendency of the applications for lease/renewals.

It was noticed that ONGC had applied for seven mining leases (six¹³ in February 2006 and one¹⁴ in July 2008) covering an area of 1,221.135 Sq km having production potential of 39.35 lakh SCM¹⁵ natural gas per day. ICD took about two years in processing the first six applications and forwarded (January 2008) to MoPNG for approval. MoPNG's approval was obtained in December 2008 and the lease deeds were executed in March 2009. The delay in deciding on the lease applications and deficiencies in the lease agreements resulted in loss of revenue as discussed in the subsequent paragraphs.

4.3.7.1 Loss of royalty due to non-finalisation of lease applications

Audit scrutiny (June 2009) indicated that all the areas for which the aforesaid mining leases were applied, have been in possession of ONGC under PEL issued earlier and mining leases (MLs) were granted (March 2009) retrospectively with effect from February 2006, as sought by ONGC i.e. more than three years prior to MoPNG's approval and actual execution of lease deeds. ICD failed to confirm whether any mining activities were carried out by ONGC in these areas prior to actual execution of lease deeds as no inspection of these areas was ever done by the Department.

Test check of the ML applications disclosed that scheduled production from the first six ML areas (933.135 sq km) with daily production potential of 37.85 lakh SCM was intimated by the ONGC to commence from 1 October 2007. The delayed execution of the lease deeds delayed the production schedule by at least 18 months (October 2007 to March 2009) involving royalty of Rs. 39.24 crore¹⁶.

The Government may consider preparing action plan for optimum exploration of the State natural resources to augment the revenue of the State.

¹³ Agartala Dome, Baramura, Gajalia, Konaban, Manikyanagar-Sonamura extension and Tichna.

¹⁴ North Agartala.

¹⁵ Standard Cubic Metre.

¹⁶ 10 per cent of {(37.85 lakh SCM x 30 days x 18 months) x (Rs. 1920.00/1000)}.

The Government stated (September 2009) that the delay was actually the processing time taken to justify the requirement of ONGC for additional PML area in terms of enhanced productivity of natural gas before recommending and forwarding the PML applications to the Central Government. The fact remains that the applications were pending for more than two years which was in violation of the MC Rules. Moreover, the applications were forwarded (January 2008) to the Central Government after about a year from the time the decision to recommend the cases was taken at the highest level in February 2007.

4.3.7.2 Loss of revenue due to defective lease agreements

The MMDR Act provides that dead rent at the prescribed rate is payable to the Government every year by the holder of a mining lease for the entire leasehold area if operation is not carried out. PNG Rules (Amended) effective from 1 April 2003, revised the rate of dead rent from Rs. 12.50 to Rs. 25.00 per ha for first 100 sq km and from Rs. 25.00 to Rs. 50.00 per ha exceeding the first 100 sq km, provided the lessee shall be liable to pay only the dead rent or royalty whichever is higher but not both.

It was noticed in audit that all the seven ML agreements executed in March 2009 provided for the payment of annual dead rent at pre-revised rate without taking into account the revision effective from April 2003. This resulted in defective lease agreements which led to Rs. 55.00 lakh loss of Government revenue (**Appendix 4.1**).

The Government stated (September 2009) that steps were being taken in consultation with ONGCL to amend the lease agreements incorporating the revised rates of dead rent. Report on action taken has not been received.

The Government may consider instituting a monitoring system to ensure correct and timely levy of revenue and its collection.

4.3.8 Loss of revenue due to arbitrary quantification of allowable utilisation of Natural Gas in mining operations

Section 6A(3) of the ORD Act, 1948 and the PNG Rules, 1959, stipulate that no royalty shall be payable in respect of any crude oil, casing-head condensate or natural gas, which is used for drilling or other operations, relating to the production of petroleum or natural gas. The Rules as well as the PML agreements did not, however, specify any standard quantum of such utilisation.

Audit scrutiny of the monthly returns exhibiting gross production and internal use of natural gas furnished by ONGC indicated wide variation in internal utilisation from year to year. The percentage of operational utilisation to total production ranged between 0.006 (2007-08) and 0.250 (2004-05). Though, ONGC claimed that the State Government approved the quantity, the Department on the other hand stated (June 2009) that neither any approval was sought by the ONGC on this account nor was any approval granted. The wide variation in internal use from year to year and from field to field had neither been scrutinised by the State Government nor explained by ONGC.

In the absence of any specified standard for use of natural gas in mining operation, excess utilisation, if any, is not quantifiable. However, taking the average trend of operational use in Rokhia Gas Field, which reported a uniform pattern averaging 0.06 *per cent* of the gross production during the last five years (2004-05 to 2008-09), the operational utilisation for gross production of 25,827.90 lakh SCM natural gas in the four¹⁷ gas fields during the last 5 years comes to 15.50 lakh SCM, as against 25.63 lakh SCM exhibited and excluded from the payment of royalty. Thus, 10.13 lakh SCM excess gas utilised in mining operation compared to the normal trend of utilisation of its Rokhia gas field resulted in undue exemption from payment of the royalty to State Government.

Thus, absence of standard quantum of norm for internal use in mining operation in the PMLs allowed ONGC to arbitrarily quantifying the quantity. This resulted in non-realisation of Rs. 16.05 lakh during 2004-05 to 2008-09.

The Department stated (June 2009) that the demand for the discrepant amount of revenue would be raised soon. Government stated (September 2009) that it was not aware of any standard norm for utilisation of natural gas in mining operation and forwarded ONGC's view that "internal consumption of gas is field and installation specific and depends on the level of sophistication, automation, safety and capacity utilisation etc.". The reply does not address the need to have a standard norm in all conditions to control misuse and arbitrary quantification by the lessees.

4.3.9 Internal control and internal audit

The internal audit wing of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed systems are functioning reasonably well.

Audit scrutiny indicated that there existed no internal audit wing in the Department either to assess, levy, collect and raise demands for the government dues or monitor and control the affairs of the Geology and Mining Cell which led to late raising of demands, short collection of receipts and improper accounting and functioning of the mineral administration in the State.

The Government may consider setting up of departmental internal audit wing in order to strengthen the internal control mechanism.

4.3.9.1 Demand and Collection Register (DCR) is a key control document, required to be maintained for effective monitoring and control over the assessment and collection of the royalty, dead rent and other relating government dues. It should contain particulars of all licences and leases, lease holders, period of lease, commencement of operation, details of monthly production, royalty/fee payable and paid with cheque/challan number and date etc.

¹⁷ i) Agartala Dome, ii) Baramura, iii) Konaban and iv) Rokhia.

Test check of the records indicated that the ICD did not maintain basic records like demand, collection and balance registers or any other control registers to watch the licenses or leases. The lessee themselves deposited the amount payable to the Government, which were never scrutinised by the Department.

The Government stated (September 2009) that a Demand and Collection Register had been already opened and maintained and assured to undertake quarterly reconciliation.

4.3.9.2 In order to ensure that the royalty is paid on correct quantities, the departmental officers are empowered to carry out necessary inspections of the mining documents and to verify the correctness of the returns submitted by the lessees/licencees. No competent technical manpower was available in the Geology and Mining Cell to conduct inspection of any of the five licenses and 11 leases in operation.

An effective internal control tool should be in place to carry out necessary inspection of the mining documents and to verify the correctness of the returns submitted by the lessees/licencees.

Government stated (September 2009) that the internal control system would be strengthened and action would be taken for regular inspection of the leased/licensed areas by a competent team.

Compliance deficiencies

4.3.10 Non-levy of surface rent

Under Rule 13 (2) (b) of the PNG Rules read with clause 1(b) of Part V of the lease deeds, the lessee of a mine is liable to pay annual surface rent (SR) for the surface area of land actually used for the purpose of the mining operations at such rate (per hectare per annum) as fixed by the Government. As per the Government of Tripura Notification of December 1984, surface rent at the rate of Rs. 450 per ha per annum (equivalent to the land revenue on non-agricultural land in the State) was fixed for the purpose PML.

Audit scrutiny indicated that for the two¹⁸ MLs of 4.71 sq km and 2.223 sq km allotted to ONGC since July 1984 and March 1987 respectively, SR at the rate of Rs. 450 per ha for the entire area covered under the lease was approved by the MoPNG and accepted by ONGC. Accordingly, ONGC paid Rs. 54.26 lakh as SR for the entire ML areas upto March 1992. Meanwhile, another eight¹⁹ MLs spreading over an area of 68.83 sq km were issued to ONGC between November 1988 and January 1998. ONGC, however, stopped further payment of SR stating that the Rule provides for payment of SR only on the land actually used in mining operation and not on the entire lease area. The matter was referred to the MoPNG which clarified that SR is payable only on the surface area actually utilised in mining operation provided that

¹⁸ Baramura (2).

¹⁹ Agartala Dome (2), Baramura (3), Konaban (1) and Rokhia (2).

the surplus land within the ML area is available to the State Government for utilisation for other purposes. On the basis of this interpretation, the State Government maintained that the entire land surface under the lease area is in the possession of ONGC and not available for utilisation to Government for any other purpose, hence SR is payable on the entire leased area. The matter remained unresolved as of June 2009 resulting in surface rent of Rs 4.21 crore²⁰ for the last five years (2004-05 to 2008-09) remaining unpaid till the date of audit.

The Department stated (June 2009) that the matter would be taken up with the appropriate higher authority for expeditious settlement. Government to whom the matter was referred (July 2009) stated (September 2009) that a decision has been taken to ascertain the present dues (on actual area utilisation basis) subject to the condition that the applicability of surface rent for the whole area or any change in the relevant Act and Rules made by the Central Government would be binding on ONGC.

4.3.11 Non-levy of the interest and penalty

Rule 14(1)(a)(ii) of PNG Rules, 1959, as amended from time to time, stipulates that a lessee shall pay to the State Government a royalty in respect of any mineral mined, excavated or collected by him from the leased area at the rates specified from time to time. The royalty shall be payable on monthly basis, as may be provided in the lease (clause 4 (ii) of Part VI) and shall be paid by the last day of the month succeeding the month in respect of which it is payable. Rule 23 (1) of the PNG Rules as amended from 1 April 2003, further provided that all license fees, royalties and other payments under these rules shall, if not paid to the Government within the time specified for such payment, be increased by a penal rate of 200 basis points over the prime lending rate of the State Bank of India during which such fees, royalties or other payments remain unpaid.

Audit scrutiny (June 2009) indicated that in 15 cases pertaining to the period between April 2004 and January 2009, ONGC paid royalty of Rs. 8.30 crore on the mining of natural gas with delay ranging between six to 85 days. The Department neither served any notice nor levied the interest with due penalty on the delayed amount of royalty payment beyond the due date. This resulted in non-levy of penal interest of Rs. 12.57 lakh.

The Department while accepting the lapse stated (June 2009) that the demand for the penal interest would be raised shortly. The Government stated (September 2009) that demand for payment of the interest with penalty has been raised.

4.3.12 Non-application of revised price of Natural Gas for computation of royalty

MoPNG issued order dated 20 June 2005, revising APM²¹ gas prices, other than power and fertiliser sector consumers. The prices effective from 5th/6th June 2006 for

²⁰ Rs. 84.25 lakh per year for five years.

²¹ Administered Pricing Mechanism.

the City Gas Distribution Projects and Small Consumers were revised from Rs. 1,920 to Rs. 2,304 per thousand SCM for North Eastern Consumers. MoPNG further revised (Order dated 27 June 2006) the rate of APM gas for supplies to Industrial and Commercial Consumers at market price from Rs. 1,920 to Rs. 3,200 per thousand SCM.

Accordingly, Gas Authority of India Limited (GAIL), the marketing and supplying agency of gas mined by ONGC in Tripura, revised the gas prices supplied to the Tripura Natural Gas Company Limited (TNGC) for their three projects, as shown below:

- Agartala City Gas Distribution at the rate of Rs. 2,304 per thousand SCM with effect from 5th/6th June 2006,
- Industrial Growth Centre at Bodhjungle at the rate of Rs. 3,200 per thousand SCM (inclusive of royalty) with effect from 2006-07 and
- Brick Kilns at Rokhia at the rate of Rs. 2,304 per thousand SCM (including royalty) with effect from 5th/6th June 2006.

Though, GAIL charged the consumer (TNGC) at the revised rates as detailed above, ONGC during the period from 2006-07 to 2008-09 paid royalty to the State Government on the pre-revised price of Rs. 1,920 per thousand SCM for the entire quantity of natural gas sold to TNGC after the price revision. The non-application of the revised prices (which had been realised from the consumer) for computation of royalty payable to the State Government by ONGC resulted in short payment of royalty of Rs. 12.29 lakh on 2.81 crore SCM natural gas supplied to the TNGC during the period from 2006-07 to 2008-09.

The Department stated (June 2009) that the matter had already been taken up with lessee and a demand for the discrepant royalty would be raised shortly. The Government stated (September 2009) that the matter has been taken up with ONGCL and MoPNG, for which reply has not been received (September 2009).

4.3.13 Short payment of royalty on casing-head condensates

Rule 14(1)(a)(ii) of PNG Rules, 1959 stipulates that a lessee shall pay to the State Government a royalty on crude oil and casing-head condensates²² obtained from mining operations at the rates fixed by the Central Government from time to time.

The ORD Act, 1948 and Rules framed there under stipulate that the royalty on casing-head condensates obtained in mining operation is to be paid at a fixed amount per MT as specified by the Central Government from time to time, similar to crude oil. ONGC, Tripura Asset, however, maintained that for condensates formed out of natural gas, the royalty is applicable at rates payable for natural gas at the rate of 10 per cent of gas price of Rs. 1,920 per 1,000 cubic metre as against Rs. 481 per MT for

²² “Condensate” as defined in the PNG Rules means those low vapour pressure hydrocarbons obtained from natural gas through condensation or extraction, which are in the form of liquid at normal surface temperature and pressure conditions.

crude oil and condensates. ONGC, however, agreed (January 2008) to pursue with the MoPNG for notification of the rate actually applicable to condensates or assessing the royalty as per the practice followed in other regions. As of now (June 2009), neither has the ONGC communicated the outcome of their efforts, nor have the State Government taken any step to obtain clarification on the issue. Consequently, ONGC continues to pay royalty on condensates at the gas price.

Annual Accounts of ONGC, Tripura Asset for the years 2005-06 to 2008-09 reveals that the sale price received by the unit on the crude oil condensates during the four years was Rs. 3.43 crore²³. The total royalty due to the State Government from ONGC at 10 *per cent* of the price of condensates was Rs. 34.26 lakh. Scrutiny of the royalty payment statement, however, indicated that ONGC had paid Rs. 6.19 lakh as royalty on condensates during the 4 years (2005-06 to 2008-09) adopting a calculation formula of 10 *per cent* of the gas price at Rs. 1,920 per 1,000 SCM at 10,000 K.Cal calorific value instead of the actual sale price of the condensates. This resulted in short payment of the royalty amounting to Rs. 28.07 lakh.

The Department stated (June 2009) that the matter would be taken up with the ONGC and a demand for the balance royalty would be raised shortly. The Government stated (September 2009) that the matter was referred to MoPNG for clarification, for which reply has not been received.

4.3.14 Non-enforcement of provisions of lease agreements

Audit scrutiny of the seven mining lease agreements entered in March 2009 indicated that due to non-enforcement of pre-revised rate of dead rent as well as surface rent as provided in the lease agreements, Rs. 14.12 crore had not been realised as detailed below:

- Clause 1(a) of part V of the ML agreements provided for payment of dead rent with effect from 1 February 2006. However, the ICD had not levied dead rents in any of the aforesaid seven MLs as of June 2009, resulting in non realisation of revenue Rs. 55 lakh²⁴.
- Clause 1(b) of Part V of the aforesaid ML agreements provided for payment of surface rent for the surface area of land actually used for the purpose of the operations conducted under the lease @ Rs. 450 per ha per annum with effect from 1 February 2006 (for six MLs) and 1 July 2008 (for one ML) payable half yearly in January and July each year. ICD neither levied and raised any demand for the surface rent on the aforesaid seven MLs nor was paid by ONGC as on June 2009. As a result, surface rent of Rs. 13.57 crore²⁵ for the

²³ 2005-06 : Rs. 45.65 lakh; 2006-07 : Rs. 52.18 lakh; 2007-08: Rs. 114.46 lakh and 2008-09: Rs. 130.30 lakh.

²⁴ The dead rent payable for 933.135 sq km i.e. 93,313.50 ha (first six MLs) for three years (2006-09) and for 288 sq km i.e. 28,800 ha (one ML) for nine months (July 2008 to March 2009).

²⁵ Surface rent for 933.135 sq km i.e. 93,313.50 ha (first six MLs) for three years (2006-09) and for 288 sq km i.e. 28,800 ha (one ML) for nine months (July 2008 to March 2009) @ Rs. 450.00 per ha per annum.

period from February 2006 to March 2009 remained unassessed and unrealised as on date (June 2009).

Government stated (September 2009) that the demand for payment of dead rent and surface rent has been raised (August 2009).

4.3.15 Short realisation of royalty on Natural Gas

Rule 14(1)(a)(ii) of PNG Rules stipulates that a lessee shall pay to the State Government a royalty on natural gas obtained at well-head from mining operations at ten *per cent* of the price of the product. MoPNG fixed the price of natural gas with effect from June 2005 at Rs. 1,920 per 1,000 SCM with calorific value of 10,000 Kilo Calorie (K. Cal.). A rebate or premium was liable to be deducted or added for the gas with lower or higher calorific value. The average calorific value of the gas available in Tripura was 8,250 K. Cal.

As per the MCD Rules, 1988, the lessee is required to submit returns to the Indian Bureau of Mines (IBM) and the State Government showing minerals raised and despatched. Audit scrutiny indicated that there was no system of cross verification of the particulars of minerals raised and despatched as shown by the lessee in the returns with those furnished to the IBM or other departmental authorities to pre-empt any scope of evasion of the royalty.

Audit scrutiny of the records indicated that the ONGC paid the royalty through cheques for 15,911.39 lakh SCM of natural gas extracted during the three years period from 2006-07 to 2008-09 (no discrepancy was noticed during 2004-06) as reported to the State Government through the royalty deposit statement. Cross verification of the monthly returns of production of the natural gas furnished separately by the ONGC to the Department, indicated that 160,51.48 lakh SCM of natural gas was actually extracted during the same period from the four²⁶ gas fields in the State, for which royalty was payable to the Government. Thus, non-accounting of 140.09 lakh SCM of natural gas (after internal utilisation) while computing royalty resulted in short realisation of Rs. 2.22 crore, as detailed below:

Table No. 4.3.2

Year	Net production at well head as per monthly return	Actual quantity on which royalty was paid	Net discrepancy	Amount of royalty @ 10 per cent of Gas price
	<i>(In lakh SCM)</i>			<i>(Rupees in lakh)</i>
2006-07	5,199.15	5,193.94	5.21	8.26
2007-08	5,332.24	5,331.44	0.80	1.27
2008-09	5,520.09	5,386.01	134.08	212.37
Total	16,051.48	15,911.39	140.09	221.90

Source: Departmental records

The Government stated (September 2009) that the discrepancy in production and the royalty payments was due to typographical and totalling errors, which have been reconciled and demand raised for payment of the differential royalty. The

²⁶ Agartala Dome, Baramura, Konaban and Rokhia.

Government also stated (September 2009) that henceforth a quarterly reconciliation of the production statement would be done.

4.3.16 Absence of mineral surveillance

According to Clause 8 of Part VII of the lease deeds, the State Government is required to ensure that the mineral surveillance is adequately exercised with a view to systemic development and regulation of minerals in the State and the minerals are explored in lawful manner as per the terms and conditions of the license and lease with adequate protection of the environment.

It was noticed in audit that none of the leased areas were inspected (till June 2009) by ICD. **No system or procedure existed for inspection of the leased premises.** Non-inspection of the premises may have adverse implication on supervisory function to ascertain whether:

- adequate measures were adopted for preservation, conservation and development of oil and natural gas
- exploration activities were carried out without damage to the surrounding environment and natural resources
- adequate safeguard exists against destruction of prospective other mineral sources
- adequate measures for the safety of the workers of mines were adopted and the exploration/mining activities were carried out following the conditions laid down for forests conservation.

The Government stated (September 2009) that action would be taken up for regular inspection of the leased areas involving State Pollution Control Board and Forest Department in the inspection team. Further, it stated that engagement of a third party for analysing the impact of exploration and drilling on the environment was also under consideration.

4.3.17 Conclusion

The Department failed to assess its role to ensure optimum exploration of State's vital natural resources and in turn augment the revenue by harnessing the same. There was no system to scrutinise the various agreements for licences and leases to ensure the protection of the interest of the State. Several discrepancies and instances of loss of revenue were noticed by audit as no checks were undertaken by the Department to ensure correctness of the revenue deposited by the licensees/lessees. There were contentious issues, which need early resolution. The Department also failed to undertake surveillance on the leased mines to guarantee lawful exploration, optimise revenue and ensure environmental protection. An effective internal control system in the Department which could have pre-empted the shortcomings, was non-existent.

4.3.18 Summary of recommendations

The Government may consider taking the following action:

- prepare action plan for optimum exploration of the State natural resources to augment the revenue of the State;
- establish technically competent machinery to oversee the various issues in the grant of PML and PEL to guarantee the protection of the interest of the State;
- ensure strict compliance to provisions of the licenses/leases;
- institute system and strengthen the mechanism to ensure correct and timely levy and collection of revenue;
- conduct periodic inspections of the leased mines to ensure lawful extraction of minerals and ensure protection of environment;
- involve the highest authorities in Government to expedite settlement of contentious issues; and
- constitute an effective and independent internal audit unit.

FINANCE (EXCISE AND TAXATION) DEPARTMENT (SALES TAX/VALUE ADDED TAX)

4.4 Other audit observations

Scrutiny of assessment records of Sales tax/value added tax (VAT) indicated cases of non-observance of provision of Acts/Rules, non/short levy of tax/ penalty/interest as mentioned in the succeeding paragraphs. These cases are illustrative and are based on test check carried out in audit. Such omissions on the part of assessing authorities (AAs) are pointed out in audit each year, but not only the irregularities do persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system including strengthening of internal audit.

4.5 Short levy of sales tax

Irregular authorisation of CENVAT Credit led to short levy of sales tax of Rs. 33.61 lakh (including interest and penalty).

Central Excise tax is levied on the manufacturer of goods, when those goods leave the place of manufacture. Excise duty is also leviable on intermediate products, used in manufacture of final products. Excise duty so paid becomes a manufacturing expense and forms a part of the sale price of the goods. Manufacturers may offset duty paid on materials used in the manufacturing process by using that duty as credit against excise tax under Central Value Added Tax Credit (CENVAT Credit) (formerly known as MODVAT). Manufacturers may, therefore, utilise the CENVAT Credit towards payment of duty of excise of any final products. For concealment of turnover, the interest as well as penalty are leviable at prescribed rates.

Scrutiny (January 2009) of the records of the Superintendent of Taxes (ST), Charge-V, Agartala indicated that in the annual returns for the years 1996-97 to 2004-05, a dealer²⁷ reduced its manufacturing accounts to the extent of Rs. 87.99 lakh, which was obtained as CENVAT credit, resulting in reduction of the turnover. The Assessing Authority (AA) in its assessment²⁸ (November 2007), irregularly computed sales tax of the dealer for those years on the reduced turnover, without taking into account the excise duty actually paid by the dealer on the inputs/raw material used in final products. This resulted in short levy of tax of Rs. 33.61 lakh (Tax: Rs. 11.42 lakh, Interest: Rs. 20.48 lakh and Penalty: Rs. 1.71 lakh) during the years.

The Superintendent of Taxes stated (May 2009) that based on the audit observation, the case was re-assessed and demand notice served on the dealer to deposit the entire amount of Rs. 33.61 lakh. A report on recovery has not been received.

The matter was reported to the Government in June 2009; their reply had not been received (September 2009).

²⁷ M/s Basanta Engineering, a manufacturer and seller of electronic equipment taxable at 12 per cent.

²⁸ Under section 9(3) of TST Act, 1976.

4.6 Short levy of the sales tax due to concealment of turnover

Under-assessment of the sales tax, non-assessment and under-assessment of additional sales tax by the assessing authorities and erroneous assessments of sales tax due to concealment of turnover by dealers, not noticed by the assessing authorities resulted in short levy of sales tax of Rs. 81.17 lakh including penalty and interest.

According to Section 13 of the Tripura Sales Tax (TST) Act, 1976, if the Commissioner in the course of any proceedings is satisfied that any dealer has concealed particulars of his turnover, he may direct that such dealer shall pay by way of penalty, in addition to the tax payable by him, a sum not exceeding one and a half times that amount (but it shall not be less than 10 *per cent* of that amount).

Test check (October 2008 to January 2009) of the records of the office of seven²⁹ Superintendent of Taxes revealed that in 36 assessment cases for the period between 1993-94 and 2005-06 finalised between August 2006 and August 2008, there were under-assessment of sales tax, non-assessment and under-assessment of additional sales tax by the assessing authorities (AAs). Besides, there were erroneous assessments of sales tax due to concealment of turnover by the dealers, not noticed by the AAs. This resulted in short levy/non-levy of sales tax of Rs. 81.17 lakh including penalty (Rs. 18.65 lakh) and interest (Rs. 15.11 lakh).

After the cases were pointed out, the AAs stated (October 2008 to January 2009) that the cases would be re-examined. Meanwhile in one³⁰ case Rs. 0.03 lakh was deposited, in nine cases³¹ after re-assessment demand notices were issued (Rs. 7.41 lakh) and in two cases³² order of reassessment (Rs. 2.55 lakh) have been served. Further progress and report on recovery has not been received (August 2009).

The matter was reported to the Government in June 2009; their reply had not been received (September 2009).

²⁹ (1) Superintendent of Taxes, Charge I, Agartala, (2) Superintendent of Taxes, Charge II, Agartala; (3) Superintendent of Taxes, Charge III, Agartala, (4) Superintendent of Taxes, Charge IV, Agartala, (5) Superintendent of Taxes, Charge V, Agartala, (6) Superintendent of Taxes, Charge VI, Agartala and (7) Superintendent of Taxes, Udaipur.

³⁰ Superintendent of Taxes, Charge V, Agartala.

³¹ Superintendent of Taxes, Charge – II, Agartala (two cases: Rs. 3.01 lakh), Superintendent of Taxes, Charge – V (three cases: Rs. 3.20 lakh) and Superintendent of Taxes, Udaipur (four cases: Rs. 1.20 lakh).

³² Superintendent of Taxes, Charge-V (one case: Rs. 0.82 lakh) and Superintendent of Taxes, Udaipur (one case: Rs. 1.73 lakh).

TRANSPORT DEPARTMENT

4.7 Non/short realisation of revenue

Non-compliance of provision under Central Treasury Rules resulted in non-realisation of revenue of Rs. 55.45 lakh. Besides, Rs.9.03 lakh composite fees of nine States were not remitted due to non-realisation by the State.

Under the National Permit (NP) Scheme, Permit holders are entitled to ply their vehicles throughout the territory of India on payment of composite fee (CF) at the rate prescribed by the concerned States/UTs. The annual CF levied by the States/UTs is remitted by bank draft drawn separately for each vehicle in advance by the home State which issues the national permit to the State Transport Authority (STA) of the State in which the vehicles are authorised to ply. Transport Department, Government of Tripura revised (January 2004) the rate of CF to Rs. 5,000 per annum effective from 1 January 2004.

Scrutiny (January-February 2009) of records of the Deputy Transport Commissioner (DTC), West Tripura District, Agartala indicated the following:

4.7.1 In eight States³³, it was noticed that the CF was realised at rates ranging between Rs. 1,800 and Rs. 3,600, instead of Rs. 5,000 in respect of 158 national permit holders, authorised to ply in Tripura for the period from November 2007 to December 2008, which were received through bank drafts. This resulted in short realisation of Rs. 3.38 lakh. No action has been taken (May 2009) by the STA to recover the amount of shortage. Besides, the Department is yet to establish database on demand, collection and monitoring of CF from other States.

The Government stated (August 2009) that the matter regarding short-realisation of composite fee had been taken up with the concerned States. Further, it stated that the Deputy Transport Officer, North Tripura District had also been asked to collect the balance composite fee from the Churaibari check post from the vehicles of other States entering into the State under the NP Scheme.

4.7.2 It was noticed in audit that 1,025 bank drafts of CF received between October 2007 and December 2008 by the DTC, from other STAs against vehicles permitted to ply in Tripura, were neither credited into the Government account nor returned to issuing authorities for revalidation, which resulted in non-realisation of Rs. 51.25 lakh³⁴. Records of the full particulars and the current position of the bank drafts were not maintained by the DTC as required under Rule 77-A of Central Treasury Rules (CTRs).

³³ Andhra Pradesh: Rs. 0.20 lakh (10 cases), Arunachal Pradesh: Rs. 0.02 lakh (1 case), Assam: Rs. 1.30 lakh (52 cases), Meghalaya: Rs. 1.76 lakh (90 cases), Rajasthan: Rs. 0.02 lakh (1 case) and Tamil Nadu: Rs. 0.04 lakh (2 cases), Uttar Pradesh: 0.02 lakh (1 case) and West Bengal: Rs. 0.02 lakh (1 case).

³⁴ Demands drafts not being made available to Audit, the amount had been calculated at the prescribed rate of Rs. 5,000 each. (1025 x Rs.5,000 = Rs. 51,25,000).

The Government stated (August 2009) that out of 1,025 bank drafts, 981 had been deposited to the Government account and the remaining 44 drafts had not been received (August 2009) after revalidation.

4.7.3 It was noticed in audit that 12 time-barred bank drafts for CF remitted by other States, valuing Rs. 0.45 lakh, sent for revalidation were returned by the banks either due to expiry of the grace period for revalidation or for sending the drafts to the bank branches other than the issuing branches. This resulted in non-realisation of Rs. 45,000.

The Government stated (August 2009) that all the 12 time barred bank drafts were sent to the appropriate Bank branches in consultation with branches available in the State for revalidation and the matter was under persuasion.

4.7.4 Under the NP scheme, permit holders are liable to pay authorisation fee (AF) of Rs. 500 to the permit issuing States (home State) and composite fee (CF) is levied by the concerned State/UT. The NPs initially issued are renewable annually on receipt of prescribed AF and CF.

It was noticed in audit that the DTC, Agartala, on receipt of one year's AF and CF, issued permits initially for five years, subject to subsequent annual renewals on payment of the prescribed AF and CF for the remaining years. It was seen that in case of 32 NPs (issued between November 2005 and February 2008), permits were not renewed though their validity periods had expired. The permits were also not surrendered to the issuing authority. This resulted in non-realisation of AF of Rs. 0.37 lakh of the State and CF of Rs. 9.03 lakh of nine³⁵ States. The DTC neither took action to impound the NPs nor raised demands against the defaulting transport operators.

The Government stated (August 2009) that the defaulting permit holders were asked to report to the office of the STA for necessary renewal. It also stated that instructions were issued to the check gate (entrance point at Churaibari) to look into the matter intensely and take appropriate action compelling the defaulters to renew the permits.

³⁵ Assam: Rs. 3.65 lakh, Bihar: Rs. 0.20 lakh, Gujarat: Rs. 0.20 lakh, Jharkhand: Rs. 0.20 lakh, Meghalaya: Rs. 2.19 lakh, Mizoram: Rs. 0.69 lakh, Rajasthan: Rs. 0.20 lakh, Uttar Pradesh: Rs. 0.20 lakh; West Bengal: Rs. 1.50 lakh.