

CHAPTER-IV TAXES ON VEHICLES, GOODS AND PASSENGERS

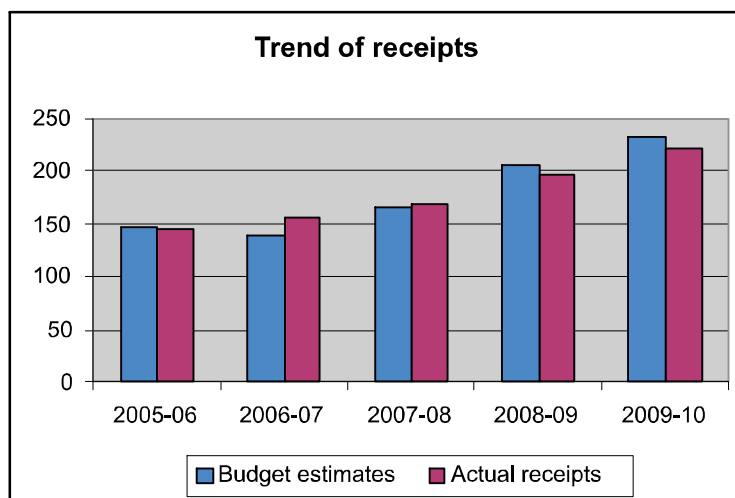
4.1 Tax administration

The receipts from the transport department are regulated under the provisions of the Central and the State Motor Vehicle Acts and rules made there under, and is under the administrative control of the Director Transport, who is assisted by a team of officers/staff in the performance of his duties relating to levy and collection of receipts from the Motor Vehicles. The receipts from the goods and passengers tax are regulated under the provisions of the Himachal Pradesh Passengers and Goods Taxation Act 1955, which are administrable by the Excise and Taxation Commissioner of the state.

4.2 Trend of receipts

Actual receipts from the taxes on motor vehicles, goods and passengers tax during the last five years 2005-06 to 2009-10 along with the total tax/non-tax receipts during the same period is exhibited in the following table and graph:

(Rupees in crore)						
Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax/non-tax receipts of the State	Percentage of actual receipts vis-à-vis total tax/non-tax receipts
2005-06	147.00	144.12	(-) 2.88	(-) 2	2,186.69	7
2006-07	140.00	156.57	(+) 16.57	(+) 12	2,993.23	5
2007-08	166.35	168.84	(+) 2.49	(+) 2	3,780.61	4
2008-09	205.16	197.92	(-) 7.24	(-) 4	3,998.73	5
2009-10	232.52	222.71	(-) 9.81	(-) 4	4,358.18	5



It would be seen from the above that the variation between the actuals and the budget estimates prepared by the department remained between two to four *per cent* except during 2006-07 when it was 12 *per cent*. We recommend that the department continue this practice of preparing the BEs on realistic basis.

4.3 Cost of collection

The gross collection in respect of taxes on vehicles, goods and passengers revenue receipts, expenditure incurred on collection and percentage of such expenditure to gross collection during the years 2005-06 to 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 were as follows:

(Rupees in crore)

Head of revenue	Year	Collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure on collection for the preceding year
Taxes on vehicles, goods and passengers	2005-06	144.12	1.28	0.89	2.74
	2006-07	156.57	1.90	1.21	2.61
	2007-08	168.84	2.73	1.62	2.47
	2008-09	197.92	1.75	1.00	2.58
	2009-10	222.71	2.53	1.14	2.93

The above table indicates that the percentage of expenditure on collection was always less than the all India average percentage during the period 2005-06 to 2008-09.

The government needs to continue and monitor this practice of efficient tax collection.

4.4 Impact of audit

During the last five years (including the current year's report), we have pointed out 1,278 observations with revenue implication of ₹ 134.02 crore. Of these, the Department/Government had accepted audit observations in 800 cases involving ₹ 41.71 crore and had since recovered ₹ 32.51 crore. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	Observation included		Observation accepted		Amount recovered
	No.	Amount	No.	Amount	Amount
2005-06	207	23.82	40	0.32	11.90
2006-07	273	16.23	546	9.26	16.30
2007-08	271	10.75	60	10.40	2.64
2008-09	276	14.87	89	5.06	0.40
2009-10	251	68.35	65	16.67	1.27
Total	1,278	134.02	800	41.71	32.51

The department had so far recovered ₹ 32.51 crore which included recovery of accepted cases pertaining to the period prior to 2005-06 also. This is indicative of the fact that the department had not been able to enforce prompt recovery even in accepted cases.

4.5 Results of audit

Test check of the records of 72 units relating to token tax, special road tax, registration fee, permit fee, driving license fee, conductor license fee, penalties and composite fee under the National Permit Scheme receipts revealed under

assessment of tax and other irregularities involving ₹ 68.35 crore in 251 cases, which fall under the following categories:

(Rupees in crore)			
Sr. No.	Categories	Number of cases	Amount
1.	Levy and collection of motor vehicle tax (a review)	1	57.95
2.	Evasion of <ul style="list-style-type: none">• Token tax• Passenger and goods tax	88 24	1.05 1.12
3.	Non/short realisation of <ul style="list-style-type: none">• Token tax and composite fee• Passenger and goods tax	23 24	0.38 0.72
4.	Other irregularities <ul style="list-style-type: none">• Vehicles tax• Passenger and goods tax	91 Nil	7.13 Nil
Total		251	68.35

During the course of the year, the department accepted underassessment and other deficiencies of ₹ 16.67 crore in 65 cases, of which were pointed out in audit during the years 2009-10 and the rest in earlier years. An amount of ₹ 1.27 crore was realised in 79 cases during the year 2009-10.

A review of “Levy and collection of Motor Vehicle tax” with financial impact of ₹ 57.95 crore and few illustrative cases involving ₹ 3.70 crore are mentioned in the following paragraphs.

4.6 “Levy and collection of Motor Vehicle tax”

4.6.1 Highlights

- Insufficient application controls in the ‘Vahan’ application had led to inconsistent and incomplete database maintained by the registering authorities.

(Paragraph 4.6.8.1 to 4.6.8.3)

- Position of arrears of token tax pending collection as on 31 March 2009 was not available with the Department. Token tax of ₹ 4.82 crore in respect of 7,739 vehicles was not collected in 17 test-checked registering authorities.

(Paragraph 4.6.8.3)

- Application of incorrect rate of composite fee in all the 89,805 vehicles entering the state without valid National Permit resulted in short realisation of ₹ 22.45 crore during the period April 2004 to May 2009.

(Paragraph 4.6.10.1)

- Due to non-raising of the monthly demand by the RTOs, the Transport Department was not aware of the Special Road Tax of ₹ 26.83 crore recoverable from the HRTC.

(Paragraph 4.6.15.1)

- Non-payment of Special Road Tax by 190 private stage carriages (PSCs) owners out of 2,297 PSCs owners during the period 2004-05 to 2008-09 resulted in arrears of ₹ 1.75 crore.

(Paragraph 4.6.15.2)

4.6.2 Introduction

Levy and collection of receipts from the Motor Vehicles are regulated under the Motor Vehicle Act, 1988; Central Motor Vehicles Rules 1989; Himachal Pradesh Motor Vehicles Taxation (HPMVT) Act, 1972; Himachal Pradesh Motor Vehicles Taxation Rules (HPMVR), 1974 and Himachal Pradesh Motor Vehicles Rules, 1999.

Receipts from the motor vehicles mainly comprises of token tax, special road tax, registration fee, permit fee, driving license fee, conductor license fee, penalties and composite fee under the National Permit Scheme.

Token tax is leviable on the motor vehicles and paid in advance either quarterly or annually in accordance with Rule 3 of the HPMVR, at the rate prescribed by the Government from time to time however, on non-transport vehicles it is leviable in lump sum. In addition to the token tax Special Road Tax (SRT) is also levied on all stage carriage transport vehicles at the rate prescribed from time to time.

The department switched over to the computerisation from April 2006. There are two softwares, one for registration of vehicles called 'VAHAN' and other for issue of the driving licenses called 'SARTHI'. However, the software does not contain module for the levy and collection of the SRT and penalty.

4.6.3 Organisational setup

Principal Secretary (Transport) is the administrative head at the Government level and Director Transport (DT) is the head of department (HOD). He is assisted by an Additional Director cum Secretary State Transport Authority (STA) at Shimla, 10 Regional Transport Officers (RTOs), 54 Registering & Licensing Authorities (RLAs) in the State. There are 11 Transport barriers²³ at the entry point of the State manned by the Assistant Regional Transport Officers under the control of six RTOs²⁴.

4.6.4 Audit Objectives

We conducted the review with a view to ascertain;

- the efficiency and efficacy of the system for determination and collection of taxes and fees;
- evaluate the system of internal controls to ensure that there is no delay in realisation of the revenue;
- determine whether adequate provisions and rules exist; and are being followed by the Department for determination and collection of the revenue; and
- the information generated through computerised database was complete and reliable.

4.6.5 Scope of Audit and audit methodology

We test checked the records for the period 2004-05 to 2008-09 maintained in the office of the Director Transport Himachal Pradesh, STA Shimla, eight RTOs²⁵ and eight RLAs²⁶. The selection of these RTOs was made on the basis of geographical location and revenue earned by them. The selection of RLAs was based on the stratified random sampling mentioned in the annexure-V. Out of 11 transport barriers, nine were test checked.

For the purpose of the IT audit we test checked the database of 'Vahan/Sarthi' applications maintained by STA Shimla and three RTOs²⁷ using Computer Aided Audit Techniques between June 2009 to May 2010. The units were selected on the basis of random sampling method using IDEA (CAATs).

²³ Baddi, Barotiwala, Damtal, Gagrate, Kala Amb, Kandwal, Mehtpur, Paonta Sahib, Parwanoo, Sawarghat and Tunuhatti.

²⁴ Bilaspur, Chamba, Kangra, Sirmour, Solan and Una.

²⁵ Bilaspur, Hamirpur, Kangra, Kullu, Mandi, Shimla, Solan and Una.

²⁶ Amb, Bilaspur, Jogindernagar, Nalagarh, Nurpur, Parwanoo, Solan and Una.

²⁷ Dharamsala, Shimla and Solan.

We also included observations noticed in audit during 2004-05 to 2008-09 in the review.

4.6.6 Acknowledgement

We acknowledged the co-operation of the Transport Department in providing necessary information and records for audit. An entry conference was held in June 2009 with the department and the scope and the methodology for conducting the review were discussed. The draft review was forwarded to the department and to the Government in June 2010 and was discussed in the exit conference held in August 2010. The Director Transport represented the Department. Replies of the Department received during the exit conference and at other times have been appropriately incorporated in the relevant paragraphs.

4.6.7 Trend of Revenue

A comparison of budget estimates (BEs) and actual receipts under motor vehicle taxes during the years 2004-05 to 2008-09 is given below:

(Rupees in crore)

Year	BEs	Actual receipts as per Finance account	Variation (+) increase (-) decrease	Variation (per cent)
2004-05	94.18	107.82	(+)13.64	(+) 14
2005-06	110.00	101.51	(-) 8.49	(-) 8
2006-07	110.00	106.35	(-) 3.65	(-) 3
2007-08	120.00	113.72	(-) 6.28	(-) 5
2008-09	136.50	135.53	(-) 0.97	(-) 1

Increase in the BEs and actual receipts during 2008-09 as compared to 2007-08 were due to deposit of arrears of ₹ 11.63 crore by Himachal Road Transport Corporation this year.

System deficiencies

4.6.8 Deficiencies noticed in system

We analysed the data generated by 'Vahan' in the STA Shimla and three RTOs²⁸ and found a number of deficiencies in the application and general controls in the computerised system. These are mentioned as below:-

4.6.8.1 Inadequacies in implementation of application controls

Application controls in a system provide assurance to the management that all transactions are valid, authorised and recorded. Unusual and improbable data makes the data integrity doubtful and tantamount to unreliability of data or points to absence of validation controls.

We noticed that there were bypassed, which was evident from the facts that:

- 1,035 vehicles were shown to have been registered prior to date of their purchase (Annexure-VI).
- Incomplete data in some of the crucial fields (Annexure-VII).
- Invalid series of registration number in 212 cases (Annexure-VIII).

²⁸

Dharamsala, Shimla and Solan.

- Blank insurance cover note in 3,220 cases and 278 out of 892.
- Duplicate insurance cover notes (Annexure-IX), duplicate engine number/chassis numbers (Annexure-X) in the database.

The facts indicate that though the system require approval of a competent authority for each transaction, it has not been applied as the staff responsible for the data entry was also doing the work of approval. Thus, the integrity of the data could not be vouchsafed. We observed that this would not have been possible unless the transactions were fed at the back end²⁹.

DT while accepting the audit contention intimated (September 2010) that the matter is under consideration with the National Informatics Center (NIC) to improve the system and remove the deficiencies.

The Government may consider issuing directions to the department for not by passing the controls/procedures provided in the application.

4.6.8.2 Inadequacies in implementation of the general controls

A user can be created by the database administrator for feeding data into the computer and can only be deleted by him. The name, user ID and password etc. are recorded in the user master table. We noticed that in ‘owner’ table there were 75 users who did not exist in the user master table but had entered the data in the

table as detailed below:-

General controls create the environment in which the application systems and application controls operate e.g. IT policies, standards and guidelines pertaining to IT security and information protection.

Name of RTO	Total number of users in master table	Number of invalid users	Number of entries by invalid users	Total entries in the data base
STA Shimla	10	3	19	11,649
RTO Dharamsala	7	29	21,972	33,836
RTO Shimla	14	5	1,685	11,107
RTO Solan	14	38	9,062	16,492
Total	45	75	32,738	73,084

This indicates that the internal control system of the department is weak and need strengthening by way of supervision at the higher level. Non-existence of user in the master table could only be possible due to their subsequent deletion from the table. In the absence of valid user ID the responsibility for feeding incorrect data or any other mistake in the database could not be ascertained.

The Government may consider the reasons for non-availability of user in master table.

4.6.8.3 Non-maintenance of centralised data

While developing ‘VAHAN’ application it was planned that the details of the vehicles would be maintained centrally in a server by NIC. However, we

²⁹ Direct data entry in the database bypassing the validation checks prescribed in the data entry form.

noticed that this was not being done defeating the very purpose for which it was created.

The DT Himachal Pradesh, Shimla had also not prescribed any return for ascertaining the uncollected amount of token tax from RTOs and RLAs. He was unaware of the token tax pending collection in the department. The position of outstanding amount of token tax was not available with the RTOs and RLAs. The tax defaulter's list generated by the system did not contain the outstanding amount of tax due and the period for which it was due. We collected the information of outstanding amount of token tax from the records of eight RLAs³⁰, eight RTOs³¹ and STA, Shimla. Out of 26,372 tests checked vehicles, token tax of ₹ 481.73 lakh in respect of 7,739 vehicles³² for the period 2004-05 to 2008-09 had not been recovered from the vehicle owners. The quantum of the arrears may be more if thorough check of all the RAs is conducted. In the absence of this vital information, the monitoring for recovery of the arrears at the apex level could not be ascertained.

No return for indicating arrears in collection of token tax has been prescribed for registering authorities.

The Secretary (STA) stated (July 2010) that directions are being issued to the field units to submit details of arrears quarterly/annually.

After we pointed it out, the DT intimated (September 2010) that recovery process has been initiated and ₹ 24.24 lakh has been recovered and efforts are going on to recover the balance amount.

The Government may consider:

- to have an effective centralised database on the server for online application software for collection and deposit of motor vehicles taxes;
- to modify the system so as have a provision for ascertaining amount of arrear of token tax and the period for which it was due.

4.6.8.4 Deficiency in exchange of the information

We noticed that the information relating to the NPs issued to the other states by the STAs were not being forwarded to the concerned STAs. In the similar manner the STAs of other states did not inform the STA HP state about the NPs issued by them. As a result STA HP was unaware of the permits issued by other states and composite fee realised there

CMVR provides that the authority, which grants a National Permit (NP) shall inform the concerned state transport authorities the registration number of motor vehicle, name and address of the permit holder and the period for which the authorisation is valid.

³⁰ Amb, Bilaspur, Kullu, Nalagarh, Nurpur, Parwanoo, Solan and Una.

³¹ Bilaspur, Hamirpur, Kangra at Dharamshala, Kullu, Mandi, Shimla, Solan and Una.

³² 399 cases of buses/mini buses/stage carriage: ₹ 141.04 lakh; 107 cases of construction equipment vehicles: ₹ 15.08 lakh; 4,279 cases of goods carriers: ₹ 164.38 lakh; 973 cases of tractors: ₹ 27.86 lakh and 1,981 cases of maxi cabs/taxi/motor cabs: ₹ 133.37 lakh.

against.

The department may consider putting in place a system for exchange of information regarding the NPs issued by the STA to vehicles opting to ply from or to the State.

4.6.9 Lack of system/internal control in timely remittance of Bank Drafts

We analysed the bank drafts received from the other states on account of composite fee under national permit scheme and the SRT in eight RTOs and STA Shimla. Out of these, we noticed in RTOs Una and Solan that the bank drafts received were either not deposited in treasury or were deposited late. The department had not devised any control mechanism for reviewing the work done in timely realisation of tax and encashment of the banks drafts by the RTOs by way of inspection at the apex level. This resulted in non-realisation of ₹ 140.39 lakh (fraudulent use of the banks drafts ₹ 1.03 lakh, non deposit of ₹ 11.42 lakh, late deposit of ₹ 127.94 lakh) and non-transmission to other States/UTs of ₹ 70.51 lakh as mentioned in the following paragraphs:-

4.6.9.1 Fraudulent use of bank drafts

Regional Transport office, Solan

Our scrutiny of the system of receipt of the bank drafts revealed that though particulars of fees, vehicle number and permit numbers were entered in the National Permit Register at the time of issue of the permit but there was no system for recording the vehicle number at the back of the banks drafts. As a result of this deficiency the fraudulent use of the banks drafts was possible. This was evident in RTO Solan where during 2008-09 the internal audit wing of the department had detected fraudulent use of 25 banks drafts valued at ₹ 1.03 lakh for granting/renewing National Permits (NPs) of 19 vehicles. Thus there was a need for putting in place a system for recording vehicle number at the back of the banks drafts and it would be strengthened if it is done under the attestation of an authorised officer so as to avoid their reuse.

Under the National Permit Scheme, composite fee at prescribed rates is recovered from goods carriages in the shape of BDs. Composite fee received on behalf of other states/UTs in the shape of BDs is required to be sent to the concern state intimating permit number and other particulars of the vehicles.

The DT apprised (September 2010) that the department has initiated disciplinary proceedings against the erring official and case has also been reported to the Vigilance department.

It is recommended that the department may install a mechanism of recording vehicle number at the back of the banks drafts under the attestation of an authorised officer to avoid their reuse.

4.6.9.2 Non-transmission of banks drafts to other States/UTs

Our scrutiny of the records of RTO Solan in November, 2009 revealed that 20,218 banks drafts amounting to ₹ 9.16 crore were received during the year 2008-09 on account of composite fee from the NP holders. Out of these 1,718 banks drafts amounting to ₹ 70.51 lakh were not sent to the respective States/UTs.

Bank Drafts received on behalf of other states are required to be sent to respective STAs. A bank draft if not encashed within a period of six months should be sent for revalidation.

The validity of these banks drafts had also expired and were sent to the concerned banks for revalidation between August and October 2009.

We noticed that these banks drafts were kept unauthorisedly by the dealing assistant for more than a year but the RTO and supervisory staff failed to check this irregularity.

After we pointed it out, the DT intimated (September 2010) that out of 1,718 banks drafts 1,493 BDs valuing for ₹ 45.83 lakh have been sent to the concerned STAs/RTAs after revalidation. Remaining 225 banks drafts are yet to be revalidated.

4.6.9.3 Non-deposit/late deposit of bank drafts of SRT

Our scrutiny (November 2009) of the bank draft register of two RTOs for the period 2004-05 to 2008-09 revealed that 184 bank drafts valued at ₹ 1.07 crore were received from stage carriages of other States during August 2008 and March 2009. Out of these, 12 bank drafts valued at ₹ 5.61 lakh were neither entered in the cash book nor deposited into the treasury and 172 bank drafts valued at ₹ 1.01 crore were deposited late after an average delay of 3 months.

HP Financial Rules, provide that bank drafts received by the departmental officers should be entered into the cash book and credited into the treasury on the same day or on next working day. The reconciliation of amounts posted in the cash book and remitted into the treasury is to be done every month.

The RTO Solan had at no time made any efforts to check the cash book and ensure the whereabouts of these drafts, resulting in non-realisation of revenue of ₹ 5.61 lakh and delayed remission of ₹ 1.01 crore. We further noticed that the RTO Una had received 159 bank drafts valued at ₹ 26.54 lakh during August to October 2008 but deposited the bank drafts after an average delay of 75 days.

Thus, the above irregularities indicate that the RTOs have failed to exercise the prescribed checks on bank drafts register and cash books to ensure prompt deposit of bank drafts. The possibility of encashment of bank drafts in connivance of vehicle owners in such cases could not be ruled out.

After we pointed out in audit (November 2009), the DT intimated (September 2010) that in case of RTO Solan ₹ 2.32 lakh has been deposited after revalidation of five bank drafts and balance seven bank drafts of ₹ 3.29 lakh have already been sent to the bank for revalidation and further added that

instructions have been issued to all the RTOs for timely deposit of bank drafts. RTO Una attributed the delay to shortage of the staff.

4.6.9.4 Non-deposit of bank drafts of composite fee

We test checked the records of STA Shimla and noticed that 36,895 bank drafts valued at ₹ 18.09 crore were received from other states on account of composite fee from 2004-05 to 2008-09. Out of these 120 bank drafts valued at ₹ 5.81 lakh were not credited to the Government account as the validity of bank drafts had expired. Out of these 12 bank drafts were sent for revalidation on 24.5.2005. But no follow up action was taken by the department to get these bank drafts revalidated despite lapse of a period of over five years. Further whereabouts of 108 bank drafts were not made available.

After we pointed out (June 2009) in audit, the DT intimated (September 2010) that out of 120 bank drafts, 99 bank drafts valuing ₹ 4.84 lakh have been revalidated and deposited in the Government treasury. Reminders to concerned banks have been issued for revalidation of remaining 21 bank drafts. Thus, facts indicate that the department needs to strengthen its monitoring control in deposit of bank drafts.

4.6.10 Leakage of revenue at entry points of the state

4.6.10.1 Faulty system at transport barriers

The Department had installed eleven transport barriers at entry points, out of which nine were test checked. We noticed (February 2009) during the audit of accounts of two barriers under RTO Una that the software developed by the department for levy and collection of the composite fee at the barriers was incorrectly programmed. Against prescribed rate of fee of ₹ 5,000 it was programmed as ₹ 2,500 in the software. Thus for each vehicle entering into the state, the Government suffered a loss of ₹ 2,500.

Transport barriers established at entry points of the State were required to recover composite fee for ₹ 5,000 in lump sum from each goods carrier entering the State without valid National Permit (NP).

Though the mistake was pointed out in February 2009, the Department did not rectify the mistake till May 2009. We further noticed (between September 2009 and February 2010) that the Government had suffered a loss of revenue of ₹ 22.45 crore in respect of 89,805 vehicles entering the state through nine transport barriers during the period April 2004 to May 2009. Out of this, ₹1.56 crore in respect of 6,243 vehicles pertained to the period after we had pointed out the irregularity. Timely departmental action could have avoided this loss.

After we pointed out this, the Director of Transport accepted (September 2010) the fact stating that incorrect application of rates of composite fee had occurred due to wrong master database in the software. Process for recovery has been started. Out of ₹ 22.45 crore, ₹ 2.03 crore in respect of 8,126 vehicles has been recovered.

4.6.10.2 Installations of transport barriers

We noticed that the Excise and Taxation Department had established multipurpose excise and taxation barriers at 34 entry points in the State to plug the leakage of passengers and goods tax. However, the Transport Department has established only 11 barriers and proposed establishing nine more barriers in December 2008 for which the approval of Government has not been received (June 2009). There was nothing on record to show how to plug the leakage of revenue in respect of the remaining 14 entry points.

We noticed that there was no provision in the Acts/Rules or by way of instructions to maintain coordination between the Excise and Taxation Department and Transport Department to check the evasion of tax by transport vehicles at entry points where no transport barriers existed. In the absence of TBs, the evasion of tax by transporters could not be ruled out.

The Government may consider

- opening new transport barriers at entry points;
- issue directions for utilising the multipurpose excise and taxation barriers for checking the evasion of taxes on account of motor vehicles by maintaining coordination with the Excise and Taxation Department.

4.6.11 Absence of provisions for periodical assessment of tax

4.6.11.1 Short determination of the SRT in respect of private stage carriages

We test checked 175 out of 1,068 route permits in two RTOs³³. The permits were selected on random sampling. Out of these, we noticed that in 30 stage carriages the tax was determined for lesser mileage than that was shown in their permits. This resulted in short realisation of SRT of ₹ 8.06 lakh. The above facts revealed that the department had at no time verified the correctness of the tax determined and paid by the vehicle owners. In absence of internal audit and the provision for assessment, the mistakes remained undetected.

RTO Kangra and Una stated between December 2009 and February 2010 that the matter was being looked into and the amount would be recovered (July 2010).

The DT intimated (September 2010) that the directions have been issued to the concerned RTOs to re-determine the correct SRT.

³³ Kangra and Una.

RTO Shimla

4.6.11.2 We noticed from the tax statements that irregular exemption of ₹ 2.89 lakh on account of the SRT was availed between January 2005 and March 2007 by HRTC Rampur unit in respect of routes mentioned in the permit, due to natural calamity without furnishing certificates from the designated authorities, nor was it demanded by the RTOs. After we pointed out (June 2009) in audit, RTO stated (August 2010) that the HRTC would be asked either to furnish the certificate from the concerned authority or to deposit the SRT.

Exemption from payment of tax may be granted to the vehicle owners in case of damage of roads due to natural calamity subject to production of certificate from a Tehsildar, SDM and PWD.

The above deficiencies could have been taken care of, had there been a provision for periodical assessment of the tax.

The DT intimated (September 2010) that the HRTC has been asked to furnish the required certificates or deposit the SRT.

The Government may consider incorporating a provision for periodical assessments so that the amount of the tax payable by owners can be correctly assessed.

Compliance deficiency

4.6.12 Loss of SRT due to fake entries

Our scrutiny of the records of RTO Solan for the period 2004-05 to 2008-09 revealed that the SRT register was not being maintained from 2004-05 onwards and the details of SRT were being kept in computer. The internal audit wing of department had not at any time pointed out non-maintenance of the records. We also noticed in the test check during 2007-08 that a fake entry of tax of ₹ 0.15 lakh was made in the SRT account in the computer. Thereafter the internal audit wing of the department conducted detailed investigation (June 2009) and could unearth fake entries of tax recovery of ₹ 21.61 lakh in the case of 54 private stage carriages from April 2000 to March 2009. However, our scrutiny (November 2009) further detected fake entries of tax of ₹ 3.66 lakh in respect of 12 stage carriages out of which 10 stage carriages pertained to the period covered in audit by the internal audit wing.

All the RTOs are required to maintain the SRT Register wherein particulars of vehicle such as vehicle number, class of vehicle, seating capacity, classification of route and monthly SRT determined are recorded. The details of SRT collected are entered in the SRT Register, cash book and signed by the RTO with reference to receipts issued and treasury challan to ascertain that amount has actually been deposited into the Government treasury.

Thus, non-maintenance of the prescribed SRT Register and non-exercising of prescribed checks by the RTO paved way for fake entries and resulted in unfair accounts of stage carriages. After we pointed out, RTO Solan accepted (April

2010) that non maintenance of SRT Register had lead to fake entries in the computer to benefit the operator.

The DT intimated (September 2010) that the SRT account of private operators was being re-cast with reference to the connected records and the matter had already been reported in June 2009 to the Vigilance Department and was still under investigation. The DT further stated that an amount of ₹ 4.56 lakh has been recovered and remaining amount shall be recovered shortly.

4.6.13 Incorrect determination of SRT by HRTC

The permits are issued by the concerned RTOs on the basis of declarations made by the HRTC. Monthly tax statements are compiled on the basis of declaration made in the permits in respect of each vehicle.

Our scrutiny of the records of eight RTOs³⁴ revealed that tax statements of the SRT were not regularly furnished by the HRTC units and (SRT statements where received) were not scrutinised by the RTO to see that the rates applied were according to the classification of route, and the mileage covered as per the authorisation in the route permits. Thus, the SRT paid by the HRTC was being accepted as correct without proper scrutiny. This laxity on the part of the RTOs resulted in short determination of tax. This aspect was also not touched by the internal audit wing. The deficiencies noticed are mentioned in the following paragraphs:-

4.6.13.1 We noticed deficiencies in collection of the SRT in respect of 16 routes plying on a NH-22. The Regional Managers of HRTC Rampur, Reckong-peo and Rohru had applied incorrect rates in the tax statements. The RTO Shimla had omitted to check the rates and the classification of the routes prescribed in notifications³⁵. The tax was paid at the rates prescribed for intra-state routes instead of inter-state route for the period 2004-05 to 2008-09. The failure of the RTOs concerned to determine correctly the amount payable on these routes had resulted in incorrect determination of SRT resulting in non-realisation of revenue of ₹ 24.31 lakh.

The rates of the SRT are higher for inter-state routes than that of intra state routes.

We further noticed that in 64 cases the permit number was not mentioned in the tax statements filed by the HRTC with the RTOs. As such the correctness of the tax paid could not be ascertained.

The DT intimated (September 2010) that the matter has been taken up with the HRTC for re-determination of the SRT.

4.6.13.2 Four Volvo deluxe buses plying from Shimla to Delhi and 13 stage carriages plying on six routes³⁶ were granted permits with one straight trip each. Our scrutiny of monthly tax statements revealed that the SRT worked out by the

³⁴ Bilaspur, Hamirpur, Kangra, Kullu, Mandi, Shimla, Solan and Una.

³⁵ Notification dated April 2000 and January 2006.

³⁶ Kalpa-Chandigarh, Nerwa-Chamunda, Reckong Peo-Dharamsala, Rohroo-Jawalaji, Shimla-Chandigarh and Shimla-Delhi.

HRTC was incorrect. It had taken lesser mileage/trips in calculation of the tax. The tax payable was ₹ 70.85 lakh against which ₹ 34.23 lakh was paid. This resulted in short collection of the SRT and resultant loss of revenue of ₹ 36.62 lakh.

The DT apprised (September 2010) that the matter has been taken up with the HRTC for re-determination of tax.

4.6.14 Issue of no objection certificate without clearance of tax

We noticed from the test check of records of the RTO Solan in November 2009 that NOCs of three buses were issued without verification of clearance of outstanding tax of ₹ 3.83 lakh³⁷. After we pointed out (November 2009), RTO Solan stated that notices have been issued to the owners of the vehicles and delinquent official has been suspended.

Section 48 (5) of the MVT Act, 1988 lays down that before issuing no objection certificate (NOC), the registering authority shall verify that all amounts due to the Government in respect of that vehicle have been paid by the vehicle owner.

However, RTO being signatory to the NOC, his failure to follow the prescribed system could also not be ignored as it had also led to above loss of revenue.

The DT intimated (September 2010) that the notices have been issued to the vehicle owners to deposit the outstanding tax.

4.6.15 Position of arrears of the SRT

We noticed that all RTOs except Solan and Una were maintaining SRT registers but it was not reviewed at any time by the RTOs. Further, the position of the arrears was not readily available with the Director Transport. After being requested for the same, he directed the concerned RTOs to furnish the same. However the same has not been furnished till date (August 2010). We collected the same from the HRTC and eight RTOs and our observations are as mentioned under:-

4.6.15.1 Arrears of the HRTC

An amount of ₹ 26.83 crore was payable as SRT as on 31st March 2010 out of which ₹ 11.41 crore pertained to the period upto March 2009.

The DT intimated (September 2010) that the process of raising monthly demands has now been enforced by the department.

³⁷ SRT: ₹ 2.73 lakh and token tax: ₹ 1.10 lakh.

4.6.15.2 Arrears of private stage carriages (PSCs)

190 PSCs had not paid SRT of ₹ 1.75 crore for the period from 2004-05 to 2008-09 as per the details in the annexure-XI.

HP MVT (Amendment) Act, 1999 provides that if SRT is not paid within a period of one month from the due date, the taxation authority shall proceed for recovery of the same as Arrears of Land Revenue (ALR).

The department had neither issued demand notices to the owner of these PSCs nor was these cases referred to the concerned Collector for recovery as arrears of land revenue. Inaction on the part of the department resulted in non-

recovery of revenue of ₹ 1.75 crore.

After we pointed out in audit (June 2009 to March 2010), the DT intimated (September 2010) that out of ₹ 1.75 crore, the department had so far recovered ₹ 49.99 lakh and notices have been issued to the owners of PSCs to deposit the balance amount of the SRT.

There is no provision in the Act for levy of interest on delay in payment of tax by the vehicle owners. Thus a considerable amount of Government revenue is foregone.

The Government may consider incorporating a provision for levy of interest on non-payment of tax and penalty by the vehicle owners in the Acts and issue direction for maintaining SRT registers.

4.6.16 Internal controls

We noticed that reconciliation of the receipts with the treasury records was not done by four RTOs³⁸, three RLAs³⁹ and STA Shimla for various period covered by audit.

After we pointed out in audit (between June 2009 and January 2010), the concerned taxation authorities stated that efforts would be made to reconcile the figures.

The DT intimated (September 2010) that reconciliation of revenue figures will be made with the treasury and reconciled statements would be obtained.

³⁸ Bilaspur, Chamba, Shimla and Solan.

³⁹ Amb, Parwanoo and Shimla.

4.6.16.1 Inadequate Internal Audit System

Our scrutiny of the records of this wing revealed (April 2010) that no manual

Under the existing system of internal audit in the department, the audit of field offices is to be conducted through the Assistant Controller (F&A) and Section Officers (F&A) posted at the Directorate. For this purpose, one Assistant Controller, two Section Officers and one assistant have been posted in the department.

regulating the functioning of internal auditing has been prepared. The internal audit wing has also not drawn the annual audit plan or fixed monthly targets of audit of the field units.

A perusal of the record revealed that out of total 68 auditable units, only 4 to 14 units were audited during each of the years 2004-05 to 2008-09. No monitoring system to watch the compliance of the internal audit observations has been evolved to know the position of the outstanding observations and monetary value thereof as no register or other record maintained for the purpose was shown to us.

Thus, keeping in view the size of the department the internal audit system was not adequate and effective.

The inadequacy in conducting the internal audit was attributed by the Department (June 2009) to the shortage of staff and diversion of their duties to perform the duties other than that of the internal auditors. Reply of the department is not tenable as the diversion of the staff posted for internal audit to perform other duties has weakened the internal audit system to check the evasion of the motor vehicles taxes. There is a need for strengthening the internal audit system of the Transport Department to monitor/ensure the correctness of taxes paid.

The DT while admitting audit contention assured (September 2010) that the department will prepare and approve annual audit plan and professionally trained staff provided for the purpose would be deployed on this important work.

4.6.17 Conclusion

Receipt from the Motor Vehicle tax is an important source of revenue for the State Government. However, substantial amount of the revenue under the motor vehicle taxes had been lost or not collected due to various deficiencies. The monitoring mechanism to keep control over collection of the revenue was ineffective. Internal audit system was also not adequate. There was no system to ensure timely collection as well as payment of the composite fee from other State Transport Authorities. The insufficient application controls in the 'Vahan' system had led to inconsistent and incomplete maintenance of vehicle database by the registering authorities. The department requires rejuvenating the system of levy, assessment and collection of taxes.

4.6.18 Recommendations

The Government may consider:

- **strengthening of inbuilt monitoring system for correct assessment of token tax and timely collection and deposit of Government dues;**
- **setting up an effective and efficient internal control mechanism for timely assessment and collection of SRT and its deposit into Government account;**
- **strengthening the Internal Audit System of the Transport Department to monitor the assessment and correctness of taxes, by clearly defining the duties of Internal Audit Wing;**
- **prescribing mechanism for proper accounting and timely deposit of bank drafts by RTOs;**
- **devising a mechanism of availabilities of information between Himachal Pradesh and outside state transport authorities about the receipt/payment of composite fee;**
- **opening of new transport barriers at 23 vulnerable entry points which had not been covered as of now; and**
- **maintaining an effective centralised database for online application software for assessment, collection and deposit of motor vehicle taxes.**

4.7 Other Audit observations

Scrutiny of the records in the offices of the Transport Department relating to revenue received from taxes on vehicles, taxes on goods and passengers revealed several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of tax/penalty/token tax and other cases as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out in audit. We pointed out such omission in audit each year, but not only do the irregularities persist but also remain undetected till an audit is conducted. There is need for the Government to consider directing the Department to improve the internal control system including strengthening internal audit so that such omissions can be avoided, detected and corrected.

4.8 Non-observance of the provisions of Acts/Rules

The Himachal Pradesh Motor Vehicles Taxation Act (HPMVT), 1972 and Rule provide for:

- (i) payment of motor vehicles tax/token tax by the owner of vehicles at the prescribed rate;
- (ii) token tax to be paid in advance and within the prescribed period; and
- (iii) payment of special road tax, permit renewal fees/registration fee at prescribed rate

The Transport Department did not observe some of the provisions of the Act/Rules in cases as mentioned in the subsequent paragraphs for levy and collection of the tax. This resulted in non/short realisation of tax/permit renewal fee of ₹2.18 crore.

4.8.1 Non-levy of penalty for late payment of SRT

Our scrutiny of the records of nine RTOs⁴⁰ revealed that the SRT for the period from July 2007 to August 2008 aggregating to ₹ 14.78 crore was deposited in August and December 2008 by the HRTC after an average delay of 216 days. However, RTOs had made no efforts to levy penalty of ₹ 1.91 crore.

As per Transport Department's notification dated 26 July 2006, if SRT is not paid on due dates, a penalty at the rate of 25 per cent per annum of the SRT shall be leviable which shall not exceed the amount of total SRT due.

After we pointed out (June 2009 to March 2010), the Department stated that the matter would be taken up with the HRTC to deposit the penalty amount.

The DT informed (September 2010) that the matter had been taken up with the HRTC to deposit the penalty amount.

⁴⁰ Bilaspur, Chamba, Hamirpur, Kangra, Kullu, Mandi, Shimla, Solan and Una.

4.8.2 Short levy of token tax due to misclassification of vehicles

RTO Kullu

Dumper and self loading concrete mixers fall within the category of construction equipment vehicles.

The token tax leviable on construction equipment vehicles was revised from ₹ 6,000 to ₹ 8,000, ₹ 9,000 to ₹ 11,000 and from ₹ 11,000 to ₹ 14,000 in respect of light, medium and heavy vehicles respectively from 11 June 2007.

This has been clarified by the Director Transport, vide letter dated, 13 October 2004.

We noticed that 66 heavy construction equipments vehicles registered with RTO Kullu during

2007-08 to 2008-09 were liable to pay the token tax of ₹ 17.56 lakh. However, these were registered as heavy goods vehicles on realisation of token tax of ₹ 2.86 lakh at the lower rate. This resulted in short realisation of token tax of ₹ 14.70 lakh.

Our scrutiny further revealed that vehicles documents were not scrutinised properly at the time of registration resulting in misclassification of construction equipment vehicles as HGV.

After we pointed out (October 2009) in audit, the DT informed (September 2010) that in case of RTO Kullu ₹ 5.43 lakh has been recovered in respect of 18 vehicles and notices have been issued to the owners of the vehicles to deposit the difference of the tax.

4.8.3 Plying of vehicles without valid permits

Our scrutiny of the records between May 2009 and October 2009 of STA

Section 81 of the Motor Vehicle Act, 1988 and Rule 68 of the HPMVR, Rules, 1999, lay down that no owner shall use or permit to use his vehicle as transport vehicle in public place unless the owner of such vehicle has obtained a valid permit from the concerned RTO/STA. The permit is valid for a period of five years from the date of its issue.

Shimla and RTOs Kullu and Shimla for the period 2007-08 to 2008-09, revealed that out of 1,480 cases test checked, the owners of vehicles had not renewed their regular permits in 380 cases after the expiry of the validity period. Non-renewal of the permits had thus resulted not only in violation of above provisions of the Act/Rules but

the State Government was also deprived of revenue on account of the permit renewal fees, authorisation fee and penalty of ₹ 11.95 lakh⁴¹.

After we pointed out (June 2009 to October 2009) in audit, the STA Shimla and RTOs Shimla & Kullu stated that the notices would be issued to the owners of the vehicles to get their route permits renewed or permits would be cancelled.

The DT informed (September 2010) that notices had been issued and ₹ 1.98 lakh had so far been recovered.

⁴¹ RTO Kullu: ₹ 1.65 lakh, RTO Shimla: ₹ 8.45 lakh and STA Shimla: ₹ 1.85 lakh.

4.9 Paragraphs on passenger and goods tax

The Himachal Pradesh Passengers and Goods Taxation (HPPGT) Act, 1955 and the rules made thereunder provide that the owners of contract carriages and goods carriers shall register their vehicles with the concerned excise and taxation officers and pay passenger tax and goods tax at the prescribed rates either monthly or quarterly as may be opted by them.

4.9.1 Non-registration of Goods and Passenger vehicles

Four RLAs and 10 RTOs

We cross verified the records of four RLAs and 10 RTOs with the records of ten AETCs⁴², between September 2009 and March 2010 and observed that 2,129⁴³ vehicles were newly registered with concerned RLAs and RTOs during 2008-09 but these were not found registered with the Excise and Taxation Department as required under the HPPGT Act. As a result, tax amounting to ₹ 66.73 lakh for 2008-09 was not realised from the owners of the vehicles. We noticed that there was no co-ordination between the concerned RLAs/RTOs and AETCs to ensure the registration of the vehicles. A minimum penalty of ₹ 10.64 lakh was also leviable.

Administrative instructions issued in December 1984 stipulate that Excise and Taxation Department shall take suitable measures to ensure registration of all vehicles under the HPPGT Act and for that purpose maintain close co-ordination with the RLAs/RTOs. For failure to apply for registration, penalty not exceeding five times the amount of tax so assessed, subject to a minimum of ₹ 500 is also leviable.

We reported the matter to the Department and to the Government between October 2009 and April 2010.

After we pointed out in audit between September 2009 and March 2010, the Excise and Taxation Commissioner Shimla intimated (ETC) (September 2010) that an amount of ₹ 7.54 lakh has been recovered from 264 vehicles of seven districts⁴⁴.

The above mistakes have been pointed out by audit in earlier State Revenue Receipts Audit Reports also but no system has been devised by the department to ensure registration of all vehicles with the Excise and Taxation department.

The Government may consider putting in place an online electronic system for registration of all goods vehicles with the Excise and Taxation Department as soon as these are registered with the Transport Department.

⁴² Bilaspur, Chamba, Hamirpur, Kangra, Kullu, Mandi, Nahan, Shimla, Solan and Una.

⁴³ Passenger vehicles: 619: ₹ 28.14 lakh and Goods vehicles: 1510: ₹ 38.59 lakh.

⁴⁴ Bilaspur: 22 vehicles: ₹ 1.17 lakh, Chamba: 80 vehicles: ₹ 2.47 lakh, Hamirpur: 27 vehicles: ₹ 0.79 lakh, Kangra: 25 vehicles: ₹ 0.76 lakh, Kullu: 62 vehicles: ₹ 1.60 lakh, Mandi: 28 vehicles: ₹ 0.44 lakh and Shimla: 20 vehicles: ₹ 0.31

4.9.2 Non-realisation of Goods and Passenger tax

10 AETCs

We noticed in the 10 AETCs⁴⁵, between September 2009 and March 2010 that the passenger and goods tax amounting to ₹ 66.90 lakh for 1,530 vehicles⁴⁶, for the period April 2008 to March 2009 was not paid by the owners of the vehicles. The assessing authorities except that of Solan did not issue demand notices to the owners of the vehicles. This resulted in non-realisation of tax of ₹ 66.90 lakh besides minimum penalty of ₹ 7.65 lakh.

The Act provides that if the owner of the vehicle fails to pay the tax due, the taxation authority may direct him to deposit the tax due along-with a penalty not exceeding five times of the amount of tax so assessed subject to minimum of ₹ 500.

We reported the matter to the department and to the Government between October 2009 and March 2010.

After we pointed out in audit between September 2009 and March 2010, the ETC Shimla intimated (September 2010) that an amount of ₹ 10.31 lakh has partly been recovered from the vehicle owners of nine districts⁴⁷.

⁴⁵ Bilaspur: 131 vehicles, Chamba: 91 vehicles, Hamirpur: 44 vehicles, Kangra: 127 vehicles, Kullu: 152 vehicles, Mandi: 389 vehicles, Nahan: 56 vehicles, Shimla: 159 vehicles, Solan: 201 vehicles and Una: 180 vehicles.

⁴⁶ Passenger vehicles: 487: ₹ 25.67 lakh and Goods vehicles: 1,043: ₹ 41.23 lakh.

⁴⁷ Bilaspur: ₹ 1.19 lakh, Chamba: ₹ 2.58 lakh, Hamirpur: ₹ 0.48 lakh, Kangra: ₹ 0.30 lakh, Kullu: ₹ 1.65 lakh, Mandi: ₹ 0.32 lakh, Nahan: ₹ 0.77 lakh, Shimla: ₹ 2.41 lakh and Solan: ₹ 0.61 lakh.