

CHAPTER - III
REVENUE SECTOR

CHAPTER III: REVENUE SECTOR

3.1 Introduction

3.1.1 Trend of Revenue Receipt

3.1.1.1 Tax and non-tax revenue raised by the Government of Arunachal Pradesh during 2013-14, the State share of net proceeds of divisible Union taxes and duties assigned to the State, Grants-in-Aid received from the Government of India during the year and corresponding figures for the preceding four years are shown in **Table-3.1.1**.

Table-3.1.1: Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue raised by the State Government						
1.	Tax Revenue	173.44	214.99	317.65	316.50	434.51
	Non-tax Revenue	511.25	530.14	360.71	284.22	405.06
TOTAL		684.69	745.13	678.36	600.72	839.57
Receipts from the Government of India						
2.	Share of Net Proceeds of divisible Union Taxes & Duties	475.40	720.18	838.97	957.93	1045.85
	Grants-in-Aid	3134.78	3956.78	3981.73	4202.87	3935.01
TOTAL		3610.18	4676.96	4820.70	5160.80	4980.86
3.	Total Revenue Receipts of the State Government (1 + 2)	4294.87	5422.09	5499.06	5761.52	5820.43
4.	Percentage of 1 to 3	15.94	13.74	12.34	10.43	14.42

The above Table shows that during 2013-14, Revenue raised by the State Government (₹ 839.57 crore) was 14.42 per cent of the Total Revenue Receipts. The balance 85.58 per cent of Receipts during 2013-14 was from the Government of India.

3.1.1.2 Details of Tax Revenue raised from 2009-10 to 2013-14 are given in **Table-3.1.2**.

Table-3.1.2: Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of Revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage Increase (+) / Decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Land Revenue	5.00	4.43	5.50	3.37	6.05	3.85	6.66	4.70	5.16	11.39	(-) 22.52	(+) 142.34
2.	Stamp Duty	1.00	1.88	1.50	1.86	2.27	2.24	2.50	3.05	2.73	4.18	(+) 9.20	(+) 37.05
3.	State Excise	15.00	23.79	17.00	29.74	28.78	37.63	32.00	49.11	56.70	55.50	(+) 77.19	(+) 13.01
4.	Taxes on Sales, Trade, etc.	80.00	130.23	110.00	168.24	173.46	216.36	226.55	161.62	321.80	223.60	(+) 42.04	(+) 38.35
5.	Motor Vehicle Tax	8.00	13.07	10.00	11.76	17.00	12.41	18.00	13.38	15.64	17.09	(-) 13.11	(+) 27.73
6.	Taxes on goods and passengers	0.00	0.04	0.00	0.02	0.00	45.16	0.00	84.64	0.00	122.75	0.00	(+) 45.03
Total		109.00	173.44	144.00	214.99	227.56	317.65	285.71	316.50	402.03	434.51	(+) 40.71	(+) 37.29

The Departments despite being requests (March 2015) did not furnish the reasons for variations in receipts from that of the previous year.

3.1.1.3 Details of Non-tax Revenue raised from 2009-10 to 2013-14 are shown in **Table-3.1.3**:

Table-3.1.3: Details of Non-Tax Revenue Raised

(₹ in crore)

Sl. No.	Head of Revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of Increase (+)/Decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1.	Power	152.00	329.27	182.00	282.18	95.00	145.04	200.67	113.07	110.03	145.41	(-) 45.17	(+) 28.60
2.	Interest Receipts	37.00	40.02	40.00	111.35	50.00	48.71	55.00	40.32	58.93	24.66	(+) 7.15	(-) 38.84
3.	Forestry & Wild Life	15.00	9.99	14.00	12.22	15.40	36.76	15.40	7.49	28.98	11.89	(+) 88.18	(+) 58.74
4.	Public Works	2.50	4.28	3.00	3.02	7.34	9.00	4.00	16.17	11.90	29.83	(+) 197.50	(+) 84.48
5.	Miscellaneous General Services	28.00	11.39	35.00	1.62	2.00	0.10	15.00	0.02	0.12	0.01	(-) 99.20	(-) 50.00
6.	Other Administrative Services	4.30	5.33	4.75	9.18	6.44	6.69	7.08	7.58	8.09	8.57	(+) 14.27	(+) 13.06
7.	Police	1.30	1.13	2.50	3.12	2.75	2.82	3.60	2.32	3.41	3.09	(-) 5.28	(+) 33.19
8.	Medical & Public Health	0.42	0.23	0.46	0.35	0.51	0.43	0.51	0.49	0.50	0.71	(-) 1.96	(+) 44.90
9.	Co-operation	0.30	0.73	1.20	0.70	1.32	0.77	1.45	0.24	0.93	0.48	(-) 35.86	(+) 100.00
10.	Other Non-Tax Receipts	77.59	51.30	100.92	69.11	109.61	35.44	118.46	42.27	93.89	180.41	(-) 20.74	(+) 326.80
	Total	318.41	511.25	383.83	530.14	290.37	360.71	421.17	284.22	316.78	405.06	(-) 24.79	(+) 42.52

The Departments despite being requests (March 2015) did not furnish the reasons for variations in receipts from that of the previous year.

3.1.2 Analysis of Revenue Arrears

The information on total amount of arrears of revenue as well as amount outstanding for more than five years as on 31 March 2014 was not furnished by the Department/ Government (March 2015).

3.1.3 Arrears in Assessments

Details of cases pending at the beginning of the year, cases due for assessment, cases disposed off during the year and number of cases pending finalization at the end of the year, as furnished by the Sales Tax Department in respect of Sales Tax, Motor Spirit Tax, Luxury Tax and tax on Works Contracts had not been furnished despite request made to the concerned departments (March 2015).

3.1.4 Evasion of tax detected by the Department

No information in respect of evasion of tax detected was furnished by the Tax and Excise Department (March 2015).

3.1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year (2013-14), claims received during the year, refunds allowed during the year and cases pending at the close of the year (2013-14), has not been furnished by the Tax & Excise Department (March 2015).

3.1.6 Response of the Government/Departments towards Audit

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

Inspection reports issued upto December 2013 disclosed that 629 paragraphs involving ₹ 357.29 crore relating to 229 IRs remained outstanding at the end of June 2014, as shown in **Table-3.6.1** below, along with corresponding figures for the preceding two years.

Table-3.6.1: Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of IRs pending settlement	343	326	229
Number of outstanding Audit Observations	939	929	629
Revenue Involved (₹ in crore)	475.89	432.32	357.29

3.1.6.1 Department-wise details of the IRs and audit observations outstanding as on 30 June 2014 and amounts involved are shown in **Table-3.6.1** below:

Table-3.6.1: Department-wise details of IRs

Sl. No.	Department	Nature of Receipts	No. of Outstanding IRs	No. outstanding Audit Observations	Money Value Involved (₹ in crore)
1.	Sales Tax	Taxes on Sales, Trade etc	70	166	38.09
2.	Excise	State Excise	48	110	8.84
3.	Revenue	Land Revenue	20	84	68.98
4.	Transport	Taxes on Motor Vehicles	21	57	14.37
5.	State Lottery	Lottery	2	11	16.76
6.	Geology & Mining	Non-ferrous Mining & Metallurgical Industries	53	176	70.75
7.	Environment & Forest & Wildlife	Forestry & Wild Life	15	25	139.50
Total			229	629	357.29

Audit did not even receive first replies within one month from the date of issue of IRs from Heads of Offices for 14 IRs issued during 2013-14. This large pendency of IRs due to non-receipt of replies indicated that Heads of Offices and Departments did not initiate action to rectify defects, omissions and irregularities pointed out in the IRs.

The Government may consider to have an effective system for prompt and appropriate response to audit observations.

3.1.6.2 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of settlement of the IRs and Paragraphs in the IRs. However, no departmental Audit Committee meeting was held during 2012-13. As can be seen from Para 3.6.1 there is large pendency of IRs. In view of this, the Government may ensure holding of Audit Committee meetings to expedite clearance and settlement of outstanding audit observations.

3.1.6.3 Response of Departments to Draft Audit Paragraphs

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

Twelve Draft Paragraphs and one Performance Audit were sent to the Principal Secretaries/Secretaries of respective Departments between September and December 2014. The Principal Secretaries/Secretaries of the Government did not furnish replies to 12 Draft Paragraphs, although reminders were issued (January 2015). In the case of Performance audit the Secretary of the Government participated in the exit conference and the written replies were furnished by the Jt. Director of the Department.

3.1.6.4 Follow-up on Audit Reports - summarized position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Ninety-five paragraphs (including one performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Arunachal Pradesh for the years ended 31 March 2009, 2010, 2011, 2012 and 2013 were placed before the State Legislature Assembly between 11 August 2009 and

29 July 2013. The action taken explanatory notes from the concerned Departments on these paragraphs were received late with average delay of 24 months in respect of each of these Audit Reports. Action taken explanatory notes in respect of 12 paragraphs from one department (Tax & Excise) had not been received for the Audit Report year ended 31 March 2013 (March 2015).

The PAC discussed 11 selected paragraphs pertaining to the Audit Reports for the years from 1998-99 to 2002-03 and its recommendations on 11 paragraphs were incorporated in their 60th Report (27 July 2012). Out of eleven paragraphs ten paragraphs were dropped by the PAC (Public Accounts Committee) and ATNS (Action Taken Notes) have not been received in respect of one recommendations of the PAC related to the Audit report for the year 2000-01 from the Environment and Forest Departments.

3.1.7 Analysis of mechanism for dealing with issues raised by Audit

To analyse the system of addressing issues highlighted in Inspection Reports/Audit Reports by the Department/ Government, action taken on Paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 3.7.1 to 3.7.2 discuss the performance of the Tax & Excise Department under revenue head 0039 (State Excise) and cases detected during the course of local audit during the last 10 years and also cases included in Audit Reports for the years 2003-04 to 2012-13.

3.1.7.1 Position of Inspection Reports

The summarized position of the Inspection Reports issued during the last 10 years, Paragraphs included in the Reports and their status as on 31 March 2014 are shown in **Table-3.7.1** below:

Table-3.7.1: Position of Inspection Reports

(₹ in crore)													
Sl. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			Closing balance during the year		
		IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
1.	2003-04	7	12	61.62	4	5	73.98	1	0	-	11	17	104.73
2.	2004-05	11	17	135.60	5	7	37.56	-	-	-	16	24	173.16
3.	2005-06	16	24	173.16	1	2	10.03	-	1	9.91	17	25	173.28
4.	2006-07	17	25	173.28	5	10	19.65	-	-	-	22	35	192.93
5.	2007-08	22	35	192.93	6	11	243.55	1	3	5.86	27	43	430.62
6.	2008-09	27	43	430.62	5	10	52.30	-	1	12.74	32	52	470.18
7.	2009-10	32	52	470.18	3	8	69.23	-	1	0.53	35	59	538.88
8.	2010-11	35	59	538.88	6	22	149.89	-	1	0.70	41	80	688.87
9.	2011-12	41	80	688.87	3	12	106.70	-	-	-	44	92	795.57
10.	2012-13	44	92	795.57	4	18	88.60	-	-	-	48	110	884.17

The Government arranges *ad hoc* Committee meetings between the Department and Accountant General's office to settle the old paragraphs. It is evident from the above table, against seven outstanding IRs with 12 paragraphs at the beginning of 2003-04, the number of outstanding IRs increased to 48 with 110 paragraphs at the end of 2012-13. This is indicative of the fact that the Department failed in the settlement of Audit paragraphs resulting in increase of the outstanding IRs and paragraphs.

3.1.7.2 Recovery of Accepted Cases

The position of Paragraphs included in Audit Reports of the last 10 years, those accepted by the Department and amounts recovered are mentioned in **Table-3.7.2**:

Table-3.7.2

(₹ in crore)						
Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31 March 2014
2003-04	2	100.75	2	100.75	Nil	Nil
2004-05	1	37.44	1	37.44	Nil	Nil
2005-06	2	16.70	2	16.70	Nil	Nil
2006-07	2	29.97	Nil	Nil	Nil	Nil
2007-08	3	14.24	Nil	Nil	Nil	Nil
2008-09	3	24.15	1	0.04	Nil	Nil
2009-10	5	61.09	Nil	Nil	Nil	Nil
2010-11	3	19.24	Nil	Nil	Nil	Nil
2011-12	6	42.08	Nil	Nil	Nil	Nil
2012-13	Nil	Nil	Nil	Nil	Nil	Nil

From the above table it can be seen that the progress of recoveries, even in accepted cases, was very slow throughout during the last 10 years. Recoveries of accepted cases were to be pursued as arrears recoverable from concerned parties. No mechanism for pursuance of accepted cases was put in place by the Department/Government. Further, arrear cases, including accepted audit observations, were not available with the office of the Commissioner, Excise & Taxation Department. In the absence of a suitable mechanism, the Department could not monitor recoveries of accepted cases.

The Department may take immediate action to pursue and monitor prompt recovery of dues involved in accepted cases.

3.1.8 Action taken on recommendations accepted by Departments/Government

Draft Performance Reviews conducted by the Accountant General, Arunachal Pradesh are forwarded to concerned Departments/Government for information with a request to furnish replies. The Reviews are also discussed in Exit Conferences and views of the Department/Government are included while finalizing Reviews for Audit Reports.

There was only one Performance Audit on 'Receipts under Arunachal Pradesh Goods

Tax (APGT) Act, 2005' under Taxation Department featured in the Audit Report during last five years. Details of recommendations and their status are given in **Table-3.8.1**:

Table-3.8.1

Year of Report	No. of recommendations	Details of recommendations	Status
2012-13	1	An Audit Manual may be prepared.	Compliance to Audit observations and recommendations has not been intimated to audit.
	2	The internal controls of the Department need to be strengthened.	
	3	Industries which irregularly claimed tax exemption under the Industrial Policy and the Tax Incentive Order of 2010 should be directed to deposit the same into Government accounts.	
	4	Central/State Government authorities should be given proper instructions for proper deduction of tax from contractors'/suppliers' bills and promptly deposit the same into Government account.	
	5	The Government may initiate steps to overhaul the functioning of the checkgate at Banderdewa in particular and all the checkgates in general.	

3.1.9 Audit Planning

Unit offices under various Departments are categorized into high, medium and low risk units, according to their revenue position, past trends of audit observations and other parameters. An Annual Audit Plan is prepared on the basis of Risk Analysis, which includes critical issues in Government Revenues and Tax Administration, *i.e.* Budget Speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings, factors of the Tax Administration, audit coverage and its impact during past five years etc.

During 2013-14, there were 129 auditable units, of which 14 were planned and audited, which is 10.85 *per cent* of the total auditable units. Besides the Compliance Audit mentioned above, one Performance Audit on mines and mineral was also taken up to examine the efficacy of collection of Mineral Receipts.

3.1.10 Results of Audit

Position of Local Audits conducted during the year

Test check of records of 14 units of Sales Tax/Value Added Tax, Forest Receipts and Geology & Mining Offices conducted during 2013-14 showed under assessment/short levy/loss of revenue aggregating ₹ 90.98 crore in 85 cases. During the course of the year, Departments concerned accepted under-assessment and other deficiencies of ₹ 2.16 crore involved in 7 cases, which were pointed out in audit during 2013-14. Departments collected ₹ 0.13 crore in 2 cases during 2013-14, pertaining to audit findings of the previous year.

3.1.11 Coverage of this Report

This Report contains twelve Paragraphs (selected from audit detections made during local audits referred to above and earlier years, which could not be included in earlier

Reports), and one Performance Audit on 'Mines and Minerals', involving financial effect of ₹ 66.23 crore.

The Department/Government is yet to furnish its reply (March 2015).

PERFORMANCE AUDIT

Geology and Mining Department

3.2 Mines and Minerals

Highlights

- The budget of the Geology and Mining Department was not prepared realistically. There was huge variation between the budget estimates and actual revenue collection during the five year period 2009-14

(Paragraph 3.2.7.1)

- The Director, Geology and Mining Department finalised royalty on the basis of monthly returns submitted by the lease holders and there was no system of maintenance of cross-linking of important data/information.

(Paragraph 3.2.8.1)

- Permit Book were not printed as per the prescribed Form 'K' as detailed in the Arunachal Pradesh Minor Minerals Concession Rules, 2002 and did not contain details of issue/expiry date of permits, purpose and other relevant columns.

(Paragraph 3.2.8.2)

- During 2009-14, 5160 mining permits were issued without realization of Application Fees of ₹ 25.80 lakh.

(Paragraph 3.2.9)

- Difference in royalty arising out of revision in rates, in excess of ₹ 528 per tonne, payable by the Central Government worked out to ₹ 52.22 crore.

(Paragraph 3.2.16)

- The Directorate, Geology and Mining did not maintain any Demand and Collection Register, which was necessary for effective monitoring and control over assessment and collection of royalty and other Government dues.

(Paragraph 3.2.17.4)

- Due to non-compliance of Rule 97 of Oil and Mines Regulation, 1984 by Oil India Limited the chances of major accident and environmental damage could not be ruled out in Ningru oil field.

(Paragraph 3.2.18.2)

3.2.1 Introduction

The State of Arunachal Pradesh is endowed with sizeable deposits of minerals like coal, petroleum & natural gas, limestone, iron-ore, *etc.* The deposits of coal, petroleum & natural gas have been explored and are being commercially extracted, but prospects of other minerals in the State are yet to be fully ascertained. Further, the State is also rich in minor minerals like stone, boulders, gravel, sand, clay, *etc.* Minerals, being a valuable resource, need to be properly extracted through scientific mining methods with the aim to ensure optimise utilisation on a sustainable basis. In Arunachal Pradesh, most mineral reserves are in forest areas, hence, mining in the State has environmental implications. Moreover, due to the tribal system prevalent in the State, there is the problem of acquisition of land for mining.

The Department of Geology & Mining was created by the Govt. of Arunachal Pradesh during 1995-96 for the primary purpose of development of minerals through mineral surveys and investigations, mineral exploration, control/monitoring of production and for earning revenue in terms of royalty, *etc.* The Department also administers mining in the State by granting Reconnaissance Permits (RPs), Prospecting Licenses (PLs), Mining Permits (MPs) and Mining Leases (MLs).

The Mines & Minerals (Development & Regulation) Act, 1957, enacted by the Government of India (GoI), lays down the legal framework for regulation of mines and development of minerals. The Mineral Concession Rules, 1960, and the Mineral Conservation & Development Rules, 1988, were accordingly framed under the MMDR Act for conservation and systematic development of minerals and for regulating grant of permits, licences and leases. The conservation, development and extraction of petroleum & natural gas are governed by the Oil field (Regulation & Development) (ORD) Act, 1948, and the Petroleum & Natural Gas (PNG) Rules, 1959. The Coal Mines (Conservation & Development) Act, 1974, the Colliery Control Rules, 2004, and other related Acts and Rules enacted by the GoI regulates the conservation, development and extraction of coal. Further, the Government of Arunachal Pradesh introduced the Arunachal Pradesh Minor Mineral Concession Rules, 2002, to regulate the mining of minor minerals in the State.

3.2.2 Organizational Set-up

The Secretary (Geology & Mining) is the Head at the Government level and is responsible for the administration of Mines and Minerals in the State. The Director of Geology & Mining (DGM) is the Head of the Department. The Director is assisted by one Joint Director, one Assistant Director, one Geologist and other allied staff at Headquarters. At the District level, Assistant Mineral Development Officers (AMDOs) are responsible for collection and assessment of Royalty, *etc.* on minerals.

3.2.3 Audit Objectives

The main Audit Objectives were to ascertain whether:

- budget Estimates of mining receipts were realistically framed and whether actual collection was reconciled;
- there was any system deficiency involving assessment, realization of revenue and other activities, leading to leakage of revenue;
- the Internal Control System and enforcement measures were in place and effective to prevent leakage of revenue.
- there was compliance with Acts/Rules and any leakage of revenue due to non-compliance to provisions of Acts/Rules; and
- there was environmental damage due to non-conformity to provisions of Acts/Rules.

3.2.4 Audit Scope and Methodology

The Performance Audit (PA) on Mines & Minerals was conducted from May to October 2014, covering the 5-year period from 2009 to 2014. Six¹ sample Districts out of 16 were selected using the Probability Proportional to Size With Replacement (PPSWR) Method of sampling. An additional District, West Kameng, was also covered on request of the Department, as there was huge extraction of minerals in the area due to ongoing infrastructure projects. Besides the selected Districts, the Arunachal Pradesh Mineral Development & Trading Corporation Limited (APMDTCL), the Directorate of Geology & Mining and Offices of Assistant Mineral Development Officers (AMDOs) of the 6 selected Districts were covered in Audit.

The PA began with an Entry Conference on 30 May 2014, attended by the Director, Geology & Mining in which the audit objectives, scope and criteria were explained and concluded with an Exit Conference on 16 December 2014, attended by both the Secretary and the Director, Geology & Mining in which the draft Audit Reports were discussed.

3.2.5. Audit Criteria

The following Acts/Rules/Regulations are the criteria for conduct of the Performance Audit:

- Mines & Minerals (Development & Regulation) (MMDR) Act, 1957;
- Mines Act, 1952;
- Mineral Concession Rules (MCR), 1960;
- Mineral Conservation & Development Rules (MCDR), 1988;
- Coal Mines (Conservation & Development) Act, 1974;

¹ East Siang, Changlang, Papumpare, West Siang, Tawang & Lower Dibang Valley

- The Colliery Control Rules, 2004;
- Oilfield (Regulation & Development) (ORD) Act, 1948;
- Petroleum & Natural Gas (PNG) Rules, 1959, (amended up to April, 2003);
- Arunachal Pradesh Minor Minerals Concession Rules, 2002;
- Forest Conservation (FC) Act, 1980;
- Environment (Protection) Act, 1986.

3.2.6 Audit Findings

Audit findings are given in the ensuing paragraphs:

Audit Objective: *Whether Budget Estimates of mining receipts were realistically framed and whether actual collection was reconciled*

3.2.7 Trend of Revenue and Financial Analysis

3.2.7.1 Budget Estimates vis-à-vis Actuals

The Budget Estimate and Actual Collection for the five year period is detailed in the Table below:

Table-3.2.1

(₹ in crore)

Year	Budget Estimate	Actual Collection	Shortfall (-)/ Excess (+)	Percentage of Shortfall (-)/Excess (+)
2009-10	26.00	57.56	(+) 31.56	(+) 121.38
2010-11	45.00	37.27	(-) 7.73	(-) 17.18
2011-12	69.33	74.91	(+) 5.58	(+) 8.05
2012-13	75.00	54.23	(-) 20.77	(-) 27.69
2013-14	58.69	107.44	(+) 48.75	(+) 83.06

Source: Finance Accounts

It can be seen from the above table that, there were huge variation between the Budget Estimates and actual revenue collection during the five year period. In 2012-13, the shortfall of revenue over Budget Estimates was ₹ 20.77 crore (27.69 per cent), mainly due to suspension of coal mining operations; whereas in 2013-14 there was an excess of ₹ 48.75 crore (83.06 per cent) mainly due to payment of arrear royalty on crude oil by the Government of India.

The growth of revenue over the 5 year period also showed an uneven trend.

This indicated that budgeting was unrealistic and there was need for improvement in the budget, planning and collection of revenue.

The Department, while accepting the facts (January 2015), stated that the Budget Estimate (Revenue Target) was fixed by the Finance Department unilaterally without participation of the Department of Geology & Mining. The target was fixed based on

the previous year's achievement and the Department was unable to achieve the targets in some years due to belated payment of differential Royalty on petroleum by the Government of India (GoI) and fluctuating requirement of Minor Minerals by new/ongoing mega projects.

3.2.7.2 Reconciliation of Revenue Collection

The Budget Manual stipulates periodical reconciliation by the Controlling Office of receipt figures as per Departmental books with those booked by the Accountant General.

However, it was noticed that though the Department claimed that periodical reconciliation was carried out during the last 5 years, there were variations between Departmental figures and figures booked by the Accountant General, as reflected in Departmental records and Finance Accounts. Details are given below:

Table-3.2.2

(₹ in crore)

Year	Departmental Figures	Finance Accounts	Difference
2009-10	57.35	57.56	0.21
2010-11	62.15	37.27	24.88
2011-12	34.25	74.91	40.66
2012-13	46.09	54.23	8.14
2013-14	100.80	107.44	6.64

Source: Finance Accounts

This indicated that no effective reconciliation was carried out during the last five years, resulting in differences ranging between ₹ 0.21 crore to ₹ 40.66 crore between Departmental figures and figures booked in the Finance Accounts of the State Government.

The Department, in reply (January 2015), stated periodical reconciliation would be carried out.

Audit Objective: *Whether there was any system deficiency involving assessment, realization of revenue and other activities, leading to leakage of revenue*

3.2.8 System Deficiencies

3.2.8.1 Absence of a mechanism to obtain relevant data/records from lease holders

The Oilfield (Regulation & Development) (ORD) Act, 1948, and Rules provide for levy of royalty in respect of oil and natural gas extracted from a leased area at prescribed rates.

The Rules also provided that a lease holder of oil and natural gas shall furnish full and proper return showing the quantity of crude oil, condensate and natural gas extracted during the preceding month from mining operations undertaken under provisions of the lease.

However, it was noticed that the Director, Geology & Mining finalized royalty on the basis of monthly returns submitted by lease holders, and there was no system of maintenance and cross-linking of important data/information like:

- i) Lease-wise Annual Quantity Tally Statement for Oil,
- ii) Trading & Manufacturing Account,
- iii) Profit & Loss Account and Balance Sheet,
- iv) Monthly details of opening stock, gross production, dispatch details, internal use, transit loss, wastage, losses due to human error, loss due to theft, closing stock, *etc.*

As such, assessments were finalized exclusively on the basis of monthly returns furnished by lease holders. The Department also did not conduct any periodical inspection/monitoring of leased areas.

In reply, the Department stated (January 2015) that crude oil is under the purview of the Central Government and the State Government was not required to maintain any records for the same.

The reply of the Department is not acceptable as the royalty is being received by the State Government on the crude oil and hence it is required to keep all related records to avoid loss of revenue.

The Department collected Royalty of ₹ 118.17 crore on Minor Minerals during 2009-14. But it was unable to provide detailed quantity of Minor Minerals extracted, as related records were not maintained. The year-wise royalty collected by the Department is shown in the Table below:

Table-3.2.3

Year	Quantity (cum)	Royalty (₹ in crore)
2009-10	Not available	22.26
2010-11	Not available	36.60
2011-12	Not available	19.70
2012-13	Not available	21.44
2013-14	Not available	18.17
Total	-	118.17

Source: DGM

In the absence of details of Minor Minerals extracted, the Directorate was not in a position to verify the accuracy of revenue royalty figures submitted by Districts.

The Arunachal Pradesh Mineral Development & Trading Corporation Ltd. (APMDTCL) extracted 8,45,276 metric tonnes (MT) coal during the five year period - 2009-14 - and paid Royalty of ₹ 15.02 crore, as detailed below:

Table-3.2.4

Year	Coal Production (MT)	Royalty Paid ((₹ in crore)
2009-10	250647	4.00
2010-11	300012	4.33
2011-12	221249	5.70
2012-13	73368	0.99
2013-14	No production	NIL
Total	845276	15.02

Source: DGM

However, scrutiny of records at the Directorate revealed that the Department did not have any system in place for calculation of royalty on coal and assessment was based entirely on returns furnished by the APMDTCL. The APMDTCL paid royalty by Cheque/Draft, based on figures submitted by the corporation.

In reply, the Department stated (January 2015) the APMDTCL calculated the royalty based on the notifications of Ministry of Coal, Government of India.

The Department's reply is not acceptable as in the absence of essential records the Directorate was not in a position to check the accuracy of royalty paid by the lessee.

3.2.8.2 Non-conformity of Permits with approved Form 'K'

According to Rule 30(1) of the Arunachal Pradesh Minor Mineral Concession Rules, 2002, an application for grant of mining permit is to be made in Form 'K' containing permit no, date of issue, name and address of the permit holder, date of expiry of the permit, name and description of minor minerals and purpose for which it will be used and quantity of minor minerals to be removed and details of royalty. Also, Condition No. 1 of Form 'K' stated that minor minerals shall have to be removed within the prescribed time limit.

Scrutiny of records of the Assistant Mineral Development Officers (AMDOs) of six test-checked Districts² revealed that Permit Books, issued by the Directorate to respective AMDOs, were not printed as per prescribed Form 'K' as detailed in the Arunachal Pradesh Minor Mineral Concession Rules, 2002, and did not contain dates of issue or expiry of a permit, the purpose for which the permits were used and other relevant columns.

² **Changlang District** (Changlang, Kharsang, Miao & Jairampur); **East Siang District** (Pasighat, Ruksin & Nari); **West Siang District** (Likabali & Aalo); **West Kameng District** (Bomdila); **Tawang District** (Tawang & Jang); and **Papumpare District** (Capital Complex & Yupia)

In absence of essential details in the permits, the Department was not in a position to check proper extraction of minor minerals within the purview of fixed time period.

3.2.8.3 Non-fixation of validity period of Mining Permits (Form 'K')

The DGM did not fix any maximum/minimum limit for validity of permits of minor minerals. As a result, it was noticed that different AMDOs of Districts issued permits with validity ranging from 2 to 180 days. The details of permit issued with validity period are given in the Table below:

Table-3.2.5

Sl. No.	District	AMDO	Validity period of Permits	
			Minimum	Maximum
1.	Changlang	AMDO, Changlang	35 days	115 days
		AMDO, Kharsang & Miao	30 days	153 days
2.	Lower Dibang Valley	AMDO, Roing	02 days	27 days
3.	East Siang	AMDO, Pasighat	10 days	33 days
		AMDO, Ruksin & Nari	28 days	93 days
4.	West Siang	Likabali	21 days	93 days
5.	Tawang	AMDO, Tawang	06 days	180 days
		AMDO, Jang	Period not mentioned	
6.	Papumpare	AMDO, Capital Complex	-do-	

Source: Departmental records

In reply, the Department while accepting the audit observation stated (January 2015) that AMDOs would be instructed to specify a maximum of three months validity period in the permits. This will also be incorporated in the proposed amendment of the Arunachal Pradesh Minor Minerals Concession Rules (APMMCR).

The reply is not tenable as had the Department fixed the specific validity periods the Government could have earned more revenue for issue of fresh permits.

3.2.8.4 Supply of Minor Minerals to Works Departments without valid Mining Permits

As per the Arunachal Pradesh Minor Mineral Concession Rules, 2002, a Mining Permit is required for extraction and removal of minor minerals.

Cross-check of records of Assistant Mineral Development Officers (AMDOs), Changlang, Pasighat, and Tawang with those of the Executive Engineer, PHE & WS Division, Changlang (July 2013 to March 2014), District Planning Officer, RWD and WRD, Pasighat (2011-12 to 2013-14), and PWD, Doimukh (March 2013) and Government Departments 110 individuals and 55 firms in respect of Tawang revealed that no mining permits were issued to the contractors/suppliers by the concerned AMDOs. However, the Department realized royalty of ₹ 32.60 lakh on minor

minerals (sand, shingle, boulder, gravel and aggregate) from contractors/ suppliers (Changlang 144, Pasighat 273 and Tawang 165)

The details of minor minerals extracted and royalty paid by the above contractors/suppliers are as under:

Table-3.2.6

Sl. No.	District	Item	Quantity extracted (in cum)	Rate (per cum)	Amount Payable	Amount Paid
1.	Changlang	Sand	819.789	65/-	3,09,638/-	3,09,638/-
		Shingle	1245.384	78/-, 103/-, 104/-		
		Boulder	869.874	143/-		
2.	Pasighat	Sand	6859.50	50/-	8,54,346/-	8,59,483/-
		Shingle	3220.14	60/-		
		Boulder	1182.94	110/-		
		Gravel	293.38	79/-		
		Aggregate	2005.76	80/-		
		Earth	125.71	35/-		
3.	Tawang	Sand	4365.435	50/-	20,89,050/-	20,91,012/-
		-Do-	859.262	65/-		
		Aggregate	9800.45	80/-		
		-do-	488.521	104/-		
		Boulder	6633.57	110/-		
		-do-	1611.054	143/-		
		Shingle	256.542	78/-		

Source: Departmental records

Thus, in absence of valid mining permit extraction of minor minerals by contractors/suppliers was illegal.

3.2.8.5 Non-disposal of Seized Coal

On examination of records it was noticed that the Department seized approximately 20,000 MT of coal in February 2012 on 'as is where is' basis, which was illegally extracted during November-December 2011. The Investigation Officer (IO) handed over the seized coal to the Assistant Mineral Development Officer (AMDO), Jairampur, in June 2012.

The Secretary (G & M), instructed (June 2012) for immediate disposal of seized coal at basic price of ₹ 1,050/- per MT and royalty at ₹ 147/- per MT (@14 per cent of the basic price) to be payable by the successful bidder.

However, the AMDO, Jairampur, stated that the coal was yet to be disposed of (July 2014).

Thus, due to the delay of more than two years in disposal, the seized coal valued ₹ 239.40 lakh (Basic Price: 20,000 X ₹ 1,050 = ₹ 210.00 lakh + Royalty: 20,000 X

₹ 147 = ₹ 29.40 lakh), was losing its quality and value from exposure to the vagaries of nature.

In reply, the Department stated (January 2015) that the matter has been taken up with the Deputy Commissioner for early disposal of the seized coal.

No further reply has been received from the Department till date (March 2015).

Audit Objective: *Whether there was compliance to Acts/Rules and whether there was any leakage of revenue due to non-compliance to the provisions of Acts/Rules*

Compliance Issues

3.2.9 Loss of revenue due to non-realization of Application Fees for Mining Permits

According to Rule 30 (1) of the Arunachal Pradesh Minor Mineral Concession Rules, 2002, an application is to be made in Form 'K' to the competent authority for grant of a Mining Permit to any person to extract and remove from any specified land any minor minerals not exceeding three thousand cubic meters in quantity under one permit on pre-payment of royalty at rates specified in the Schedule.

Further, as per Rule 31 (1) (a) of the Rules *ibid*, an application for a Mining Permit shall be accompanied by a Fee of ₹ 500/-.

Examination of records of different Assistant Mineral Development Officers (AMDO)s revealed that from April 2009 to March 2014, 5160 Mining Permits were issued without realization of Application Fees of ₹ 25.80 lakh. The detailed break-up of non-realization of Application Fees are given below:

Table-3.2.7

Period	District	AMDO	No. of Permits Issued	Money Value (in ₹)
2009-14	Changlang	Changlang	17	8,500/-
		Kharsang & Miao	309	1,54,500/-
		Jairampur	23	11,500/-
	Lower Dibang Valley	Roing	3169	15,84,500/-
	Papumpare	Capital Complex	09	4,500/-
		Yupia	13	6,500/-
	East Siang	Pasighat	180	90,000/-
		Ruksin & Nari	206	1,03,000/-
	West Siang	Aalo	26	13,000/-
		Likabali	67	33,500/-
	Tawang	Tawang	501	2,50,500/-
		Jang	360	1,80,000/-
	West Kameng	Bomdila	280	1,40,000/-
	Total			5160

Source: Departmental records

Thus, due to non-realisation of application fee from the permit holders led to loss of revenue to the tune of ₹ 25.80 lakh to the Government.

3.2.10 Submission of Monthly Returns by Works Departments

To ensure proper deposit of Royalty on minor minerals, the Director of Geology & Mining (DGM) instructed in March 2006 to all Works Department of the State/Central Governments and other Government Organizations/ Undertakings engaged in any type of construction activity in the State to deposit royalty on minor minerals under the Head of Account – '0853 Non-ferrous Mining and Metallurgical Industries 800- Other Receipts' -and required them to submit details of such Royalty paid in Form No: G&M-1 containing name and address of contractor, treasury challans/draft no., supply work order no., name of project/scheme, details of minor minerals, rate and quantity, amount by the 15th of succeeding months.

Examination of the records of PWD/PHED and different construction agencies³ revealed that the Divisions had either submitted monthly returns which were not in conformity with Form No: G&M-1 or had not submitted returns at all. The AMDOs also failed to issue Notices to the Works Departments for non-submission of returns in proper format during the period 2009-14.

In the absence of details of deductions of Royalty at source, the accuracy and authenticity of deductions could not be verified by AMDOs.

While accepting the audit comments the Department stated in their reply (January 2015) that the AMDOs have been instructed to take up the matter with the works department.

3.2.11 Delay in deposit of Revenue by Works Departments

As per Rule 6(1) of the Central Government Account (Receipts and Payments) Rules, 1983 which is followed in Arunachal Pradesh, all moneys received by or tendered for Government officers on account of revenues or receipts or dues of the Government shall be deposited into Government Account without undue delay.

Cross-check of records of Assistant Mineral Development Officers (AMDOs) and Works Divisions of the four selected Districts⁴ revealed that the Divisions delayed the deposit of royalty on minor minerals (sand, aggregate, boulder, shingle, etc.) deducted at source from Suppliers' Bills into Govt. Account during the period from 2011-12 to 2013-14. The delay was ranged between 17 to 1095 days and kept the amount in Cash/Bank.

³Office of the Executive Engineers PWD and PHED, Changlang; DPIU-II Division, Miao; WRD, Bordumsa; PWD, Jairampur; RWD, WRD and UD & Housing, Itanagar, Executive Engineer, Pasighat Highway Division, RWD, WRD, PWD and 44 Border Roads Task Force (BRTF), Aalo, different Works Divisions/Construction Companies/Firms/Suppliers in r/o Yupia, Tawang and Bomdila.

⁴ – Kharsang, Miao & Jairampur in Changlang District, Roing in Lower Dibang Valley District, Aalo in West Siang District and Yupia in Papumpare District.

Details are shown in the following Table:

Table-3.2.8

District	AMDO	Amount (₹ in lakh)	Range of Delay	
			Minimum	Maximum
Changlang	Kharsang & Miao	3.33	17	38
	Jairampur	299.10	30	293
L. Dibang Valley	Roing	118.80	180	365
West Siang	Aalo	59.17	180	1095
Papumpare	Yupia	9.34	60	210

Source: Departmental records

Thus, due to delay in deposit of royalty to Government Accounts the possibility of temporary misappropriation of Government money could not be ruled out.

In reply, the Department stated (January 2015) that the AMDOs have been directed to pass proper instructions to all works departments for timely deposit of royalty.

3.2.12 Short realisation/non-deduction of Royalty from Suppliers' Bills by Works Departments

Examination of monthly returns submitted by Works Departments to AMDOs of Changlang, East Siang, West Kameng and Papumpare Districts of Arunachal Pradesh, revealed that Departments deducted royalty from contractors' bills by applying incorrect rates on minor minerals - sand, boulder, shingle resulted short realisation of revenue amounting to ₹ 15.39 lakh during 2013-14 as shown in **Annexure-3.12.1**.

Further, Cross-verification of records of the AMDO, Changlang, with those of the Executive Engineer, RWD, Changlang, revealed that the Division made payment of ₹ 33.19 lakh in October 2013 to a supplier, M/s Amin Enterprises, Itanagar, against 10 Bills for supply of 5492.75 cum of 'earth' during June and July 2013 without deducting royalty @ ₹ 46/- per cum as fixed by the Department of Geology & Mining, effective from 1st May 2013. Thus, failure on the part of the Executive Engineer to exercise his responsibility led to non-deduction of royalty of ₹ 2.53 lakh (5492.75 cum x ₹ 46).

In reply, the Department stated (January 2015) that concerned AMDOs were instructed to realize the royalty from the concerned works departments.

The current status of realisation has not been intimated (March 2015).

3.2.13 Outstanding Royalty from GREF & PWD

Cross-verification of records of the Assistant Mineral Development Officer (AMDO), Roing in Lower Dibang Valley District, with those of the Officer Commanding, 62 RCC (GREF), Roing, and the Officer Commanding, 1446 BCC (GREF), Roing, revealed the following:

- a) The Officer Commanding, 62 RCC (GREF), Roing utilised river bed materials for two construction works from July to December 2012 and from January to December 2013. In the first work, the unit utilised 124555.57 Cum minor minerals *i.e.* Sand, Boulder, River Bed Materials (RBM) between July and December 2012 accruing royalty of ₹ 101.16 lakh. However, royalty of only ₹ 50.61 lakh was paid in December 2013. The balance amount of royalty of ₹ 50.55 lakh remained unrealized till date (March 2015). The details are shown below:

Table-3.2.9

Sl. No.	Period	Types of Minor Minerals	Quantity (in cum)	Rate (per cum)	Amount (₹ in lakh)
1.	July to December 2012	Sand	1490.96	50/-	0.74
2.	-do-	Boulder	6532.21	110/-	7.19
3.	-do	RBM	116532.40	80/-	93.23
Total			124555.57		101.16
Less : Royalty Paid					50.61
Outstanding Royalty					50.55

Source: Departmental records

In case of another work, the unit utilized 166513.08 cum of minor minerals, *i.e.* sand, boulders and river bed material (RBM), from January to December 2013, accruing Royalty of ₹ 155.29 lakh. However, the entire amount remained outstanding till date (March 2015) as per details given below:

Table-3.2.10

Sl. No.	Period	Types of Minor Minerals	Quantity (in cum)	Rate (per cum)	Amount (₹ in lakh)
1.	January to April 2013	Sand	962.09	50/-	0.48
2.	-do-	Boulder	1527.13	110/-	1.68
3.	-do	RBM	71982.86	80/-	57.59
4.	May to December 2013	Sand	614.17	65/-	0.40
		Boulder	2431.30	143/-	3.47
		RBM	88995.53	103/-	91.66
Total			166513.08	-	155.28

Source: Departmental records

- b) The Officer Commanding, 1446 BCC (GREF), Roing, also utilised 24075.61 cum of minor minerals between January to March 2014, accruing royalty of ₹ 24.69 lakh, which had not been paid till date (March 2015) as per details given below:

Table-3.2.11

Sl. No.	Period	Types of Minor Minerals	Quantity (in cum)	Rate (per cum)	Amount (₹)
1.	January to March 2014	Boulder	1173.10	143/-	1.68
2.	-do-	S/Metal	1472.56	104/-	1.53
3.	-do-	Sand	1562.45	65/-	1.02
	-do-	RBM	19867.5	103/-	20.46
Total			24075.61	-	24.69

Source: Departmental records

Despite repeated reminders issued by the Assistant Mineral Development Officer, Roing, Royalty of ₹ 230.53 lakh (50.55 lakh + 155.29 lakh + 24.69 lakh) remained unrealized from the two units of GREF.

- c) Similarly, cross-verification of records of the AMDO, Yupia, with those of the Executive Engineer, Doimukh PWD Division and Executive Engineer, Capital 'A' Division, PWD, Itanagar, revealed that the two Divisions utilised minor minerals during 2013-14, accruing royalty of ₹ 13.77 lakh (₹ 4.56 lakh + ₹ 9.21 lakh), which had not been paid. The AMDO, Yupia, failed to issue Notices to the Divisions for recovery of the same.

While accepting the facts the Department in their reply stated (January 2015) that the AMDOs - Roing and Yupia - have been instructed to realize the outstanding royalty of ₹ 244.30 lakh from the concerned Departments.

3.2.14 Non-realization of Surface Rent

Rule 13 (2) (b) of the Petroleum & Natural Gas Rules (PNG) Rules, 1959 (amended up to April, 2003), provided that the lessee shall pay Surface Rent for the area of land actually used by him/her on operations conducted under lease at such rates not exceeding the land revenue assessed or assessable on the land or as specified by the State Government with the approval of the Central Government.

The Government of Arunachal Pradesh drew up a Petroleum Mining Lease with M/s Oil India Ltd. for Ningru Oil Field in November 1983 and another one with M/s GeoEnpro Petroleum Ltd. for Kharsang JVC Block in June 1995. As per Clause 1(b) of Part V of the Agreements, Surface Rent was fixed at the rate of ₹ 46.73/- per hectare per annum and was to be paid at the end of each half year. Further, Clause 4 of Part VI of the Agreements provided that any payment to be made within the time specified for such payment, if not paid within the time specified, shall be increased by 10 *per cent* for every month or portion of a month during which such payment remained unpaid.

Scrutiny of Register of Surface Rent maintained by the Director, Geology & Mining, revealed the following:

- M/s Oil India Ltd. did not pay Surface Rent on a 75 sq. km (7500 ha.) area of petroleum mining operations since January 2002 till date of audit (May 2014).
Thus, ₹ 3.53 crore (Surface Rent : ₹ 0.42 crore + Late Penalty : ₹ 3.11 crore) remained unrealized from M/s Oil India Ltd.
- M/s GeoEnpro Petroleum Ltd. did not pay Surface Rent on a 11 sq. km (1100 ha.) area of petroleum mining operations since April 2004 till date of audit (May 2014).

Thus, ₹ 35.47 lakh (Surface Rent : ₹ 5.14 lakh + Late Penalty : ₹ 30.33 lakh) remained unrealized from M/s GeoEnpro Petroleum Ltd.

The Department of Geology & Mining also failed to issue Demand Notices to the two lessees for recovery of the outstanding Surface Rent, totalling ₹ 3.88 crore including penalty.

In reply, the Department stated (January 2015) that the matter has been taken up with the lessees - M/s Oil India Ltd. and M/s GeoEnpro Petroleum Ltd.

3.2.15 Loss of Revenue due to flaring up of Natural Gas

The Petroleum & Natural Gas Rules (PNG) Rules, 1959 (amended up to April 2003), stipulated that a lessee shall pay to the State Government Royalty at 10 *per cent* of the value at well-head for natural gas obtained by the lessee from the leased area.

It was noticed in audit that a lessee, M/s Oil India Ltd. extracted 947.36 lakh Standard Cubic Metres (SCUM) of natural gas from the Kumchai Oil Field from 2009 to 2014. The Company utilized 148.91 lakh SCUM for production of Petroleum and flared-up the remaining 798.45 lakh SCUM natural gas.

In 2006, the Company requested the State Government to allow it to construct a pipeline for transportation of the gas to Assam, where there was a market for the same. But the State Government was yet to take a decision till date (March 2015). As a result, the Company could not optimally utilize the extracted gas and continued to flare-up the gas.

Another lessee, M/s GeoEnpro Petroleum Ltd., extracted 761.67 lakh Standard Cubic Metres (SCUM) of natural gas from Kharsang Oil Field from April 2009 to March 2014. The Company consumed 246.51 lakh SCUM natural gas for its own use and flared up the remaining 515.16 lakh SCUM natural gas.

As such, there was loss of royalty to the State Government due to flaring-up of 1313.61 lakh SCUM (798.45+ 515.16) of natural gas during the five year period 2009-14. The details of production, utilisation and flaring up of natural gas by Oil India Limited and GeoEnpro Petroleum Limited during the last five year is given in the following table:

Table-3.2.12; Details of flaring of Natural Gas in Arunachal Pradesh

Year	Production of Natural Gas (in lakh SCUM)		Natural Gas utilized in the production of Petroleum (in lakh SCUM)		Natural Gas flared up due to non-tapping (in lakh SCUM)	
	Oil India	Geo-Enpro	Oil India	Geo-Enpro	Oil India	Geo-Enpro
2009-10	213.68	124.46	29.75	38.31	183.93	86.15
2010-11	172.76	207.23	29.83	43.80	142.93	163.43
2011-12	179.25	156.43	29.83	54.90	149.42	101.53
2012-13	192.29	149.82	29.75	54.75	162.54	95.07
2013-14	189.38	123.73	29.75	54.75	159.63	68.98
Total	947.36	761.67	148.91	246.51	798.45	515.16

Source: Departmental records

3.2.16 Outstanding Royalty on Crude Oil

Under the provisions of the Petroleum and Natural Gas (PNG) Rules, 1959, a lessee shall pay to the State Government royalty on Crude Oil and casing head condensate obtained from the mining operation at the rate fixed by the Central Government from time to time within 30 days of the month to which the production relates.

A mining lease Agreement was executed in October 1997 between M/s GeoEnpro Petroleum Ltd. and the Government of Arunachal Pradesh under Production Sharing Contract (PSC) for a period of 20 years from 16th June 1995 for extraction of crude oil from Kharsang Area of Arunachal Pradesh, measuring 11 sq. km. The Agreement was made with prior approval of the Government of India. As per terms and conditions of the Agreement for extraction of crude oil, the lessee was to pay royalty to the State Government at the fixed rate of ₹ 528/- per tonne, and any difference arising out of any subsequent revision in rates of royalty would be borne by the Government of India from the Oil Industries Development Board (OIDB) Fund.

The lessee, M/s GeoEnpro Petroleum Ltd. extracted 2,10,751.0333 tonnes of crude oil between January 2012 to March 2014 and paid royalty of ₹ 11.13 crore to the State Government at the rate of ₹ 528/- per tonne, as fixed by the Government. The prescribed rates for extraction of crude oil fixed by the Government of India during January 2012 to March 2014 varied, ranging from ₹ 2224.94 to ₹ 3702.70, and Royalty worked out to ₹ 63.35 crore, calculated at these prescribed rates. The differential royalty payable by the Central Government in excess of ₹ 528/- per tonne was worked out to ₹ 52.22 crore (₹ 63.35 - ₹ 11.13 crore), as detailed in **Appendix-3.12.2**. The amount of ₹ 52.22 crore was not yet reimbursed by the Central Government, though the matter was taken up by the Department.

Audit paragraph on similar issue related to the period from October 2010 to December 2011 appeared (paragraph No. 3.11) in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2013, Government of Arunachal Pradesh.

The Department stated (January 2015) that the State Government has taken up the matter with the Government of India for payment of the outstanding royalty for the period 2012-13 and 2013-14 and accordingly an amount of ₹ 65.62 crore was received from the Government of India as payment of differential royalty for the period from October 2010 to March 2012. The Department has also intimated that the outstanding royalty related to the financial year 2012-13 and 2013-14 was taken up with the concerned authorities.

Audit Objective:	<i>Whether the Internal Control System and enforcement measures were in place and were effective to prevent leakage of revenue</i>
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3.2.17 Internal Controls

Internal Control is a management tool that provides reasonable assurance that the objectives of an organization are being achieved in an efficient, effective and adequate manner. It ensures that financial interests and resources of the organization are safeguarded, reliable information is available to the management and activities of the entity comply with applicable rules, regulations and laws.

3.2.17.1 Non-preparation of a Departmental Manual

It was noticed that the Department did not have a Departmental Manual, specifying functions and responsibilities of officers/staff at all levels/categories as per instructions issued by the Government/Department. In the absence of such a Departmental Manual, Departmental officers did not have any reference point, even for routine activities of the Department.

In reply, the Department stated (January 2015) that it would prepare a departmental manual as suggested by audit.

3.2.17.2 Information Technology

Computerization of the Department is a must in order to streamline various processes - issue of mining leases, assessment, levy/collection of mining receipts, sharing of information with prospective investors, *etc.*

However it was noticed that the Department was yet to implement any computerized system to issue of mining lease, assessment, collection *etc.*. The level of computerization was limited to word-processing and other offline activities.

In the absence of computerization, the Directorate was unable to have real-time access with AMDOs in Districts. Had there been a computerized network system, the information gap between the Directorate and AMDOs on the issue/receipt of Permit Books, outstanding Royalty, delay in deposit of Royalty, quantity of minerals extracted, *etc.* could have been prevented.

The Department while accepting the fact stated (January 2015), that it was in the process of computerisation of the Department.

3.2.17.3 Internal Audit

Internal audit helps an organization to accomplish its objectives and add value and improve its operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

It was noticed that there was no Internal Audit mechanism in the Department of Geology and Mining. Only periodical audit was conducted by the Directorate of Audit, Arunachal Pradesh.

The Department accepted the fact and stated (January 2015) that it would take necessary action in this regard.

3.2.17.4 Non-maintenance of Control Registers

The Directorate did not maintain any Demand and Collection Register, which was necessary for effective monitoring and control over assessment and collection of royalty and other Government dues.

In the seven selected Districts, at the unit level, several instances of non-maintenance of vital registers/ records were noticed. A few examples are given below:

- 1) Stock Register of Permit Books;
- 2) Revenue Realization Register;
- 3) Register of notified quarries in the area;
- 4) Register of stone crusher units in the area; and
- 5) Permit Issue Register.

In the absence of maintenance of such Registers there was a possibility of malpractices and underscored financial discipline.

3.2.17.5 Irregularities in stock-keeping of Permit Books

Scrutiny of records during Performance Audit revealed that the number of Permit Books which were issued by the Directorate to the respective AMDOs did not tally with the AMDOs figure as shown below:

Table-3.2.13

Sl. No.	District	AMDO	No. of Permit Books Issued	No. of Permit Books Recd.	Difference
1.	Changlang	Changlang	-	-	-
		Kharsang	01	-	(-) 01
		Miao	10	-	(-) 10
		Jairampur	01	01	-
2.	Lower Dibang Valley	Roing	-	50	(+) 50
3.	Papumpare	Capital Complex	05	05	-
		Yupia	04	03	(-) 01
4.	East Siang	Pasighat	10	10	-
		Ruksin	04	05	(+) 01
		Nari	02	-	(-) 02
5.	West Siang	Aalo	12	-	(-) 12

Sl. No.	District	AMDO	No. of Permit Books Issued	No. of Permit Books Recd.	Difference
		Likabali	23	-	(-) 23
6.	Tawang	Tawang	07	04	(-) 03
		Jang	-	03	(+) 03
7.	West Kameng	Bomdila	10	-	(-) 10

Source: Issue/Receipt Register of Director, G&M and AMDOs

Thus, due to discrepancies on permit books issued/receipt the possibility of misuse of permit books for illegal extraction of minor minerals could not be ruled out.

While accepting the audit observation, the Department stated (January 2015) that it will carry out reconciliation and results will be intimated thereof.

However, no reply was received (March 2015).

3.2.17.6 Inconsistencies in manpower allotment in Check Gates

Check Gates are a control mechanism to minimize the risk of unauthorized transport of minerals without payment of Royalty and the resultant loss of revenue. Hence, Check Gates need to have optimum allotment of manpower to be efficient and effective.

The manpower position in Check Gates of the test-checked Districts, is given below:

Table-3.2.14

Sl. No.	District	AMDO	No. of Check Gates	Mineral Guards Posted
1.	Changlang	<i>Changlang</i>	-	04
		<i>Miao</i>	-	04
		<i>Kharsang</i>	02	05
		<i>Jairampur</i>	-	-
2.	Lower Dibang Valley	<i>Roing</i>	01 (Non-functional)	05
3.	Papumpare	<i>Capital Complex</i>	02 (Defunct)	04
		<i>Yupia</i>	03	03
4.	East Siang	<i>Pasighat</i>	01	04
		<i>Ruksin & Nari</i>	01	06
5.	West Siang	<i>Aalo</i>	02	03
		<i>Likabali</i>	01	04
6.	Tawang	<i>Tawang</i>	01	06
		<i>Jang</i>	-	02
7.	West Kameng	<i>Bomdila</i>	-	03

Source: Departmental records

It can be seen from the table above that though there were no Check Gates at Changlang and Miao, four (4) Mineral Guards were posted, whereas though there were three (3) Check Gates at Yupia, only 3 Mineral Guards were posted. This indicated lack of proper man-power management in the Department, which resulted in the inconsistencies.

In reply, the Department stated (January 2015) that it had taken up the matter with the State Government. However, no further reply has been received till date (March 2015).

3.2.17.7 Non-existence of a Vigilance Wing

The Department did not have a Vigilance Wing to inspect unit offices, leased areas, quarries of minor minerals and other areas of mineral deposits. In the absence of a Vigilance Wing, the Department could not conduct periodical checks during the five year period under review. Due to the non-inspection, loss of revenue due to concealment of production figures by lease holders and illegal extraction of minor mineral could not be ruled out.

The Department stated (January 2015) that it has taken up the matter with the State Government. However, no further reply has been received till date (March 2015).

3.2.17.8 Non-reconciliation of Revenue Deposits

To ascertain the correctness of deposit of Government revenue through Treasury Challans and its account into the appropriate receipt head of account, the Treasury Advice List for every month is required to be obtained from the Treasury for reconciliation with figures of revenue deposit.

Records of the different Assistant Mineral Development Officers (AMDOs) like West Kameng District (Bomdila) and Tawang District (Tawang and Jang) and Papumpare District (Capital Complex and Yupia) revealed that the concerned AMDO's neither obtained the Treasury Advice List from the Treasury nor was it reconciled with remittances. In the absence of the Treasury Advice List, the authenticity of revenue deposits could not be checked.

In reply, the Department stated (January 2015) that it has instructed all the AMDOs to carry out monthly reconciliation with the treasury.

Audit Objective: <i>Whether there was environmental damage due to non conformity to provisions of Acts/Rules</i>

3.2.18 Environmental Aspects

Environmental effects associated with mining activities start at the exploration stage, extend through the extraction and processing of minerals and continue even after closure of the mines. Legislation for mining requires before a mine is developed and operated in an environmentally sound manner with the least adverse impact on the environment.

As on date, in Arunachal Pradesh, there is only one open-cast coal mining lease at Namchik, in Changlang District, operated by the Arunachal Pradesh Mineral

Development and Trading Corporation (APMDTCL) and two Petroleum Mining leases in Kharsang, Changlang District, operated by GeoEnpro Petroleum, Ltd. and in Ningru, Changlang District, operated by Oil India, Ltd. Environment issues on-site inspections of the three mining areas are discussed in the subsequent paragraphs:

3.2.18.1 Flooding of Open-cast Coal Mine due to cessation of operations

Acid Mine Drainage (AMD) is the outflow of acidic water from coal mines, coal stocks and coal handling facilities. It is caused by the oxidation of pyrite and sulphur in the presence of water leading to the formation of sulphuric acid. Coal mines are rich source of sulphur and thus AMD worldwide hazard associated with large scale mining. Coal mines releases toxic amount of minerals and AMD in water can occurs which may affect the surrounding environment.

Arunachal Pradesh Mineral Trading & Development Corporation Ltd. (APMDTCL), was granted a 20-year lease for the mining of coal in a 133.65 hectare area of Namchik, Changlang District from February 2007. The APMDTCL, in turn, engaged a contractor for extraction of coal, which was marketed by the Corporation. In May, 2012 the Ministry of Coal, Government of India (GoI), banned coal operations due to the suspected involvement of insurgents in coal mining in the area. Subsequently, the contractor withdrew from the area and all operations ceased.

Joint inspection of the mines along with the General Manager (Mining), APMDTCL, in June 2014 revealed that the entire mining pit area was filled up with rain-water up to the rim. The GM (Mining), APMDTCL, informed that the water could not be pumped out mining pit area as the water pumps was not functioning.

As such, chances of water spilling out of the mine pit and causing damage to the nearby areas cannot be ruled out.

Pic. 1



Mining pit of Namchik Open-cast Mine, Changlang District

3.2.18.2 Lack of Safety Measures in Oil Rigs

Oil drilling has many harmful ecological and environmental effects. The process of drilling and extraction of oil is complex and leaves many opportunities for error or accident. Oil spills, accident and illegal dumping of oil barrels and produced water may lead to devastating ecological and health consequences.

In order to ensure safe exploration of oil & natural gas and prevent environmental damage to areas near oil wells/rigs, the Government of India framed the Oil Mines Regulations, 1984.

Rule 97 of the Regulations state that:

- 1) The Christmas Tree (Oil Drilling Rig) provided at any well on land shall be kept securely fenced with access gates securely locked.
- (2) The protected area surrounding every drilling or work over installation. Production installation, storage tanks and flare stacks shall be provided with fences of not less than 1.8 metres in height.
- (3) (a) Precautions shall be taken to prevent any unauthorized person from having access to any place which has been duly fenced.
(b) Every fence shall at least once every seven days be examined by a competent person. A Report of every such inspection shall be recorded in a bound paged book kept for the purpose and shall be signed and dated by the person who made the examination.
- (4) If any doubt arises as to whether any fence, guard, barrier or gate provided under these regulations is adequate, proper or secure, it shall be referred to the Chief Inspector for a decision, and whose decision thereon shall be final.

Three oil wells were inspected during the course of joint inspection (Review Audit Party and Oil India Staff) in September 2014 of the Ningru Oil Field, Changlang District, operated by Oil India Limited, It was noticed that none of them had proper fencing. Cattle and goats were found grazing within metres of the oil rigs. There were no danger/hazard signboards in sight.

Thus, due to non-compliance of Rule 97 of the Oil Mines Regulations, 1984 the chances of a major accident and environmental damage could not be ruled out.



3. 2.18.3 Continuation of Mining Operations without Forest Clearance

As per provisions of the Forest (Conservation) Act, 1980, Compensatory Afforestation is the most important condition stipulated by the Central Govt. while approving proposals for de-reservation or diversion of forest land for non-forest uses.

Scrutiny of records during the Performance Review revealed that the Government of India approved the grant of Petroleum Mining Lease for oil exploration purposes by M/s Oil India, Ltd. in an area of 540.668 sq. km., known as Ningru Oil Field, for a period of 20 years in 1984. The Mining Lease was valid from November 1983 to November 2003. M/s Oil India, Ltd. applied for re-grant of the Mining Lease, and the Ministry of Petroleum & Natural Gas, GoI, accorded approval in January 2004. M/s Oil India Ltd. requested the Government for diversion of forest land in respect of the aforesaid oil field and the proposal was forwarded to Ministry of Environment & Forests (MoEF), GoI. The MoEF, in its Forest Advisory Committee Meeting held in August 2007, desired that the proposal for diversion be bifurcated according to the requirement of forest land and separate proposals submitted - one for exploration and another for diversion of land for oil well drilling, infrastructure facilities, etc. M/s Oil India, Ltd. finally submitted the bifurcated proposal in June 2013. However, the Ministry of Environment & Forests, GoI, is yet to give clearance to the proposal till date.

Since the validity period of the lease already expired in November 2003 and neither any approval for re-grant of the lease was accorded nor any working permit issued by the State Government to Oil India Ltd. thereafter, exploration for crude oil in the oil fields of Ningru Area would be illegal and in violation of mining laws and the Forest Conversation Act, 1980.

The State Government allowed M/s Oil India Ltd. to continue extraction of crude oil from the aforesaid oil field for more than 10 years after expiry of the validity period of the lease, in contravention of environmental rules.

In reply, the Department stated (January 2015), that the matter has been taken up with Oil India Limited and GoI.

3.2.19 Conclusion

The budget estimates of the Department were not prepared realistically. There was huge variation between budget estimate and actual revenue collection during the period 2009-14. There was no effective system of reconciliation of revenue collection between the Departmental figures with that of figures booked by Accountant General (A&E). The Department had failed to put in place a system for accurate and effective collection of data on mining operation from the lease holders, the assessment of royalty was based on the return furnished by the APMDTCL. There was no mechanism in place for issuing of permit as per provisions in Arunachal Pradesh Minor Mineral Concession Rules, 2002. The internal control mechanism was not effective in the department to prevent leakage of revenue. Due to non observance of the conditions as laid down under Rule 97 of Oil and Mining Regulation, 1984 the chances of a major accident and environmental damage could not be ruled out.

3.2.20 Recommendations

- The Department may ensure co-ordination with the Finance Department for preparation of realistic revenue target and to reconcile the revenue collection figure with AG.
- A system may be kept in place for accurate and effective collection of data from lessees and completion of assessments and collection of royalty.
- The Government should stop extraction of minor minerals by contractors/suppliers without valid mining permit.
- Internal Control of the Department needs to be strengthened by creation of a Departmental Manual, Internal Audit Wing, Vigilance Wing, *etc.* Periodical inspections of the oil field/mines may be conducted to ensure environmental safety.

COMPLIANCE AUDIT PARAGRAPHS

Taxation Department

3.3 Non-realization of Entry Tax

The DTO failed to collect Entry Tax of ₹ 34.80 lakh on vehicles imported from outside the State resulting in non-realization of revenue to that extent

Under provision of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, Entry Tax at applicable rates shall be paid on the import of a motor vehicle which is not registered in Arunachal Pradesh, at the time that the motor vehicle is so registered. In October 2005, the Commissioner of Taxes, Arunachal Pradesh, directed Deputy Commissioners of all Districts to ensure payment of Entry Tax prior to registration of imported vehicles.

In Arunachal Pradesh, motor vehicles are taxable at the rate of 12.5 *per cent* and bulldozers, dumpers, tippers, *etc.* at the rate of a 4 *percent*.

Audit cross-checked the registration records of the District Transport Officer (DTO), Bomdila, with those of the Superintendent of Taxes, Bomdila, in September 2013. It was found that 51 new commercial motor vehicles valued at ₹ 6.23 crore, imported from outside the State were registered between January 2010 and September 2013. The entry tax, of ₹ 34.80 lakh⁵, on 51 commercial motor vehicles was neither paid by the importers at the time of import of the vehicles nor collected from the owners at the time of registration of the vehicles.

Thus, due to failure of the DTO to collect entry tax resulted in non-realization of revenue of ₹ 34.80 lakh.

The case was reported to the Department/Government in February 2014; reply is still awaited (March 2015).

3.4 Loss of Revenue on sale of Veneer/Sawn timber by unregistered Dealers

Two un-registered dealers sold Veneer/ Sawn Timber valued at ₹ 3.87 crore and claimed exemption from payment of tax by furnishing declarations in Form 'C'. However, ST failed to assess tax of ₹ 48.37 lakh as Form 'C' were not acceptable as both dealer being unregistered.

Under Section 7 (1) of the CST Act, while liable to pay tax under the Act, no dealer shall carry on business unless he is registered and possesses a Certificate of Registration. Section 90 (1) of the Arunachal Pradesh Goods Tax Act, 2005, provides

⁵ @ 12.5 <i>per cent</i> on ₹ 1,16,43,460/-	=	₹14,55,433/-
@ 4 <i>per cent</i> on ₹ 5,06,24,436/-	=	₹ 20,24,977/-
Total Entry Tax payable	=	₹ 34,80,410/-

for prosecution of a dealer who sells goods without registration. It also states that the dealer could be imprisoned for up to three years, along with a fine, or both. Further, Section 94 (1) of the Act *ibid* provides that penalty at twice the tax payable is leviable by way of composition in lieu of prosecution. The item Veneer and Sawn Timber are taxable at the rate of 12.5 *per cent* in the State.

Scrutiny of records of the ST, Tezu, in June 2014 revealed that two dealers⁶ sold Veneer and Sawn Timber valued at ₹ 3.87 crore between April 2007 and March 2009 in the course of Inter-State Trade, and claimed exemption from payment of tax by furnishing declarations in Form 'C'. The 'C' Forms furnished by the dealers were not valid as the dealers were not registered under the CST Act. Thus, the dealers were liable to pay tax of ₹ 48.37 lakh besides, penalty of ₹ 96.77 lakh was also leviable for selling goods without registration in the course of Inter-State Trade. The Assessing Officer also did not initiate any action to register the dealers and recover the tax payable.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).

3.5 Loss of Revenue due to short-deduction of VAT at Source

Seven unregistered contractors executed works contracts valued at ₹ 5.97 crore, on which the EE deducted VAT of ₹ 6.85 lakh only instead of ₹ 55.93 lakh, leading to loss of revenue of ₹ 49.08 lakh

Under Section 5(2) of the Arunachal Pradesh Good Tax (APGT) Act, 2005, a dealer executing works contracts shall be liable to pay Value Added Tax (VAT) on the balance turnover after deduction of charges incurred towards labour, services, *etc.* If such charges are not ascertainable, a deduction of 25 *percent* is allowed on the total turnover. Further, Section 47 A of the Act *ibid* provides for deduction of VAT at source by the Government/Departments while making payment to suppliers/contractors and deposit the VAT so deducted into Government account.

Cross-verification of the records of the ST, Changlang, with those of the Executive Engineer (EE), DPIU-II, Rural Works Division, Pradhan Mantri Gram Sadak Yojana (PMGSY), Changlang, in June 2014 revealed that 7 (seven) unregistered contractors executed works contracts valued at ₹ 5.97 crore under the PMGSY scheme during 2013-14. While making payment to the contractors, the EE deducted VAT of only ₹ 6.85 lakh instead of ₹ 55.93 lakh.

Failure of the EE to deduct VAT at prescribed rates led to short-deduction of tax of ₹ 49.08⁷ lakh and enabled the unregistered contractors to evade the amount. Since the

⁶ M/s Chowkham Saw & Veneer Mills Pvt. Ltd., Chowkham and M/s Tafragam Saw Mills Pvt. Ltd., Chowkham

⁷ Value of Works Contract: ₹ 5,96,64,429/-
Less 25 *per cent* being cost of Labour & Services: ₹ 1,49,16,107/-

contractors were not registered either under the APGT Act or CST Act, the amount of ₹ 49.08 lakh was a loss of revenue to the State Government.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).

3.6 Loss of Revenue due to non-deduction of tax at source

Non-deduction of tax at source and carrying on business without registration by a dealer led to loss of revenue of ₹ 3.23 crore

Section 19 of the APGT Act, states that a dealer who is liable to pay tax shall not carry on business unless registered and possesses a Certificate of Registration. Rule 5 (1) of the APGT Rules stipulates that the Government Department is responsible for deduction of tax at source at the time of making payment to works contractors at the rate of 12.5 *per cent* after deducting charges towards labour and services. However, where the amount of charges towards labour and services cannot be ascertained, the amount of such charges shall be calculated at the rate specified in 'Annexure 8' of the Rules. In accordance with the aforesaid Annexure, a deduction of 25 *per cent* from the contract value is allowed towards cost of labour and services in respect of civil works.

Further, the dealer was also liable to pay penalty equal to the amount of tax evaded as stipulated in Section 87 (10) of the Act *ibid*.

Cross-check of records of the ST, Pasighat, with those of the Executive Engineer (EE), Rural Works Division, Pasighat, in September 2014 revealed that a contractor executed two works contracts, valued at ₹ 16.11 crore, between January and December 2013 and final payment thereof was also made in June 2013 and March 2014 respectively, without deducting any tax from Bills of the contractor. Further, records of the ST, Pasighat, revealed that the contractor was neither registered nor paid any tax on the value of works executed. Thus, the dealer was liable to pay Tax of ₹ 1.51 crore, besides Interest of ₹ 21.41 lakh for non-payment of tax (calculated upto Aug 2014 @ 24 *per cent per annum*), and penalty of ₹ 1.51 crore for carrying on business without registration.

Since the dealer was not registered, the entire outstanding revenue of ₹ 3.23 crore would ultimately lead to loss of revenue to the State exchequer.

The case was reported to the Department/Government in October 2014; reply is still awaited (March 2015).

Material Value of Contract:	₹ 4,47,48,322/-
VAT realizable @ 12.5 <i>per cent</i> on ₹ 4,47,48,322:	₹ 55,93,540/-
VAT deducted by the EE:	₹ 6,85,143/-
Short Deduction:	₹ 49,08,397/-

3.7 Loss of revenue due to irregular grant of exemption

Non-assessment of dealer by the Superintendent of Taxes, Ziro, within the specified period led to loss of revenue of ₹ 1.29 crore

A dealer is not liable to pay tax on sale of exempted goods as specified in Schedule-I attached to the APGT Act.

Under Section 36 of the APGT Act, unless the Commissioner has reason to believe that tax was not paid by reason of fraud or evasion on the part of the person, no assessment or re-assessment shall be made by the commissioner after expiry of four years.

Scrutiny of records of the ST, Ziro, in September 2013 revealed that a dealer imported taxable goods like DG Sets, Cranes, Welding Machines, etc., valued at ₹ 3.10 crore between April 2006 and March 2009 by utilizing 'C' Form/ Way Bills from outside the State. However, the dealer submitted a single return in March 2009 for the aforesaid period and disclosed a turnover of ₹ 3.10 crore, but claimed exemption from payment of tax, and accordingly paid no tax. Since the dealer did not deal in goods specified in Schedule-I of the Act, he was not eligible to get exemption from payment of tax. But the ST did not initiate any action to complete the assessment of the aforesaid period and recover the admitted tax from the dealer. The dealer had evaded tax of ₹ 38.75 lakh, calculated at 12.5 *per cent* on ₹ 3.10 crore. Since four years had already expired from the end of the tax period of March 2009, assessment for the aforesaid period became time-barred, leading to loss of revenue of ₹ 1.29 crore (including Interest of ₹ 51.76 lakh @ 24 *per cent per annum* upto August 2013 and Penalty of ₹ 38.75 lakh).

The case was reported to the Department/Government in February 2014; reply is still awaited (March 2015).

3.8 Concealment of turnover

Contractor concealed import of taxable goods valued at ₹ 80.70 lakh and thereby evaded Government revenue of ₹ 26.57 lakh (including Interest and Penalty)

Under Section 34(1) (b) of the APGT Act, if the Commissioner is not satisfied with the return furnished by a dealer, he may assess or re-assess the tax due for a tax period.

Further, Section 44 (2) of the Act *ibid* provides payment of Interest ranging between 12 and 24 *per cent* per annum for the entire period of default in payment of tax. For submission of false return, the dealer is also liable to pay Penalty of ₹ 1 lakh or the amount of tax evaded whichever is greater, as per Section 35 (1) and Section 87 (10) of the Act. Scrutiny of Road Permits of the ST, Pasighat, in September 2014 revealed that a contractor imported taxable goods valued at ₹ 80.70 lakh between April 2009

and March 2012. However, cross-verification of quarterly returns furnished by the dealer for the aforesaid period revealed that the dealer neither disclosed the aforesaid purchase in his return nor paid the due tax. The Assessing Officer (AO) also accepted the returns furnished by the dealer. As a result, a turnover of at least ₹ 80.70 lakh was concealed and tax of ₹ 9.88 lakh was evaded by the dealer, which escaped notice of the AO. In addition to tax, Interest of ₹ 6.81 lakh @ 24 per cent (up to August 2014) and Penalty of ₹ 9.88 lakh was also leviable but not levied.

Thus, the dealer concealed purchase turnover of ₹ 80.70 lakh and evaded Government revenue of ₹ 26.57 lakh including interest and penalty.

The case was reported to the Department/Government in October 2014; reply is still awaited (March 2015).

3.9 Evasion of tax due to Concealment of Turnover

Concealment of turnover and failure of the ST to cross-verify the return furnished by a dealer, resulted evasion of tax of ₹ 6.87 lakh

Section 34 of the APGT Act stipulates that the Commissioner may assess or re-assess a dealer when he is not satisfied with the return submitted by any dealer.

Further, Sections 87 (10) and 44 (2) of the Act provide for penalty equal to the amount of tax payable and levy of interest for default in payment of tax at prescribed rates respectively.

Verification of the Utilisation Statement of 'C' Forms furnished by the dealer, which were available in case records, revealed that a dealer purchased taxable goods (*medicines*), valued at ₹ 1.72 crore, from outside the State between July to September 2009. However, test-check of records of the ST, Pasighat, in September 2014 revealed that the dealer submitted a 'Nil' return for the aforesaid period and the ST accepted the return as correct.

Thus, failure of the ST to cross-verify the purchase of medicines made by the dealer, as available in the case records, before accepting the 'Nil' turnover return led to evasion of tax of ₹ 6.87 lakh. The dealer was also liable to pay Interest of ₹ 7.14 lakh (@ 24 per cent per annum calculated upto Aug 2014) for non-payment of tax and Penalty of ₹ 6.87 lakh for willful concealment of turnover.

The case was reported to the Department/Government in October 2014; reply is still awaited (March 2015).

3.10 Evasion of tax

A dealer concealed turnover of ₹ 81.76 lakh and evaded tax of ₹ 3.27 lakh, for which Interest of ₹ 2.49 lakh and Penalty of ₹ 3.27 lakh was also leviable.

Under Section 34 of the APGT Act, if the Commissioner is not satisfied with the return submitted by a dealer, he may assess or re-assess the dealer. Further, the dealer is also liable to pay penalty equal to the amount of tax evaded, as stipulated in Section 87 (10) of the Act *ibid*.

Examination of the assessment records of the ST, Aalo, in July 2013 revealed that a dealer purchased taxable goods (*taxable between 4 and 12.5 per cent*), valued at ₹ 94.59 lakh, from one Guwahati (Assam) based dealer by utilizing one 'C' Form between July and September 2009. However, the dealer submitted a return turnover of only ₹ 12.84 lakh during the aforesaid quarter, which was duly accepted by the ST. The dealer also did not furnish opening and closing stock in the quarterly return. Thus, the dealer concealed a turnover of ₹ 81.75 lakh and evaded tax of ₹ 3.27 lakh, calculated at the minimum rate of four *per cent*. The tax effect would be even more if the element of profit and appropriate rate of tax could be ascertained.

Since the dealer did not furnish Closing Stock in the return it can be confirmed that entire purchase was sold during the quarter.

Thus, the dealer was liable to pay Tax of at least ₹ 3.27 lakh on concealment of sales, in addition Penalty of ₹ 3.27 lakh for wilful evasion of tax, and Interest of ₹ 2.49 lakh (@ 24 *per cent per annum* calculated upto June 2013) for default in payment of tax, were also leviable.

The case was reported to the Department/Government in February 2014; reply is still awaited (March 2015).

State Excise Department

3.11 Non-realization of Renewal Fees and Penalty

Failure of the Department to initiate action led to non-realization of Renewal Fee of ₹ 46.50 lakh and Fine of ₹ 5.18 lakh

The Government of Arunachal Pradesh notified in May 1994 that Licence Fee of ₹ 1.5 lakh *per annum* shall be payable for opening a Bonded Warehouse or a wholesale vend. The rates of fine for delayed payments in respect of Bonded Warehouses and wholesale vends were also enhanced to ₹ 100/- and ₹ 75/- per day respectively, with effect from 15 February 2001. Further, the Arunachal Pradesh Excise Act, 1993, provides that the authority who granted any licence may cancel it if the prescribed Annual Fee payable by the licensee has not been paid.

During audit of the Commissioner of Excise, Arunachal Pradesh, Itanagar, in June 2014, it was noticed that six Bonded Warehouses and 18 wholesale vends had not renewed their licences falling between October 2010 and June 2015 in advance before the expiry of the validity period. No action was taken to cancel the licences. Instead, the CoE continued to issue import passes to the licensees. The irregular grant of passes without realization of the Licence Fee not only violated the Excise Act but also resulted in non-realization of revenue of ₹ 46.50 lakh. Besides, Fine of ₹ 5.18 lakh was also leviable for default in renewal of Licence.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).

3.12 Non-realization of establishment charges

Establishment Charges of ₹ 5.52 lakh in respect of an Excise official posted simultaneously in two different Bonded Warehouses were not realized

Rule 74 (a) of the Arunachal Pradesh Excise Rules, 1994, lays down that the Collector shall employ such Officers and establishment, as the Excise Commissioner may direct, to the charge of a private Warehouse for the purpose of supervision. The licensee of the Warehouse shall pay to the Government, in advance, a Fee in cash equivalent to the establishment cost of such Officers for three months, as the Excise Commissioner may fix. The cost of the establishment shall include the pay and allowances, as well as leave salary and pension contributions.

Audit of the records of the Excise Commissioner in June 2014 revealed that an Excise official was posted in two different private Warehouses at Hollongi⁸ and Naharlagun⁹. Establishment Charges for the official from January 2013 to March 2014 were ₹ 5.52 lakh as worked out by Audit and accepted by the Excise Commissioner. However, the Department neither worked out the Establishment Charges nor raised any demand for payment of the same. The private Warehouses also did not make any payment towards Establishment Charges for the aforesaid period. Failure of the Department to raise demand led to non-realization of Establishment Charges of ₹ 5.52 lakh, as worked out by Audit.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).

⁸ M/s Dekrom Beverages, Holongi

⁹ M/s Majestic Bonded Warehouse, Naharlagun

3.13 Loss of revenue

Failure of the Department to realize Licence Fee and Penalty before cancellation of three licences led to loss of revenue of ₹ 4.83 lakh

Under the Arunachal Pradesh, Excise Act, 1993, and Rules made thereunder, a licence granted for dealing in Indian Made Foreign Liquor (IMFL) shall remain valid for one year from the date of issue. On expiry of the validity period, the licensee shall either return the licence or get it renewed on payment of the prescribed Annual Fee in advance. If he fails to get the licence renewed before expiry of the validity period of the licence, he shall be liable to pay penalty in addition to the Fee at the rate of ₹ 75/- per day for the period of default in payment of the Fee.

Examination of records of the Commissioner of Excise in June 2014 revealed that licences of three wholesale IMFL vendors were valid up to different dates between September 2011 and September 2013. On expiry of the validity periods of the licences, the proprietors neither renewed the licences nor returned them to the issuing authority. The Department did not initiate any action to either realize the prescribed Licence Fee of ₹ 6.00 lakh and Penalty of ₹ 0.78 lakh for non-renewal of the licences or to take over the stock of IMFL for recovery of the dues. However, all three licences were cancelled between July 2012 and May 2014 by the Excise Commissioner without realizing Government revenue and only forfeiting the security deposit of ₹ 1.95 lakh from 3 wholesale IMFL vendors (@ ₹ 65,000/- in each case). This resulted in loss of revenue of ₹ 4.83 lakh.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).

3.14 Non-realization of Renewal Fees and Penalty

Failure of the Department to initiate action against Retail Licences for non-renewal of licences led to non-realization of Renewal Fees of ₹ 4.40 lakh and Penalty of ₹ 0.76 lakh

Under provisions of the Arunachal Pradesh Excise Rules, 1994, a licence granted to a retail IMFL vendor shall expire after one year from the date of issue. Further, the Excise Department instructed in March 1996, that if a retail vendor fails to renew the licence on payment of a Renewal Fee of ₹ 40,000/- within the stipulated date, he shall be liable to pay, in addition to the Renewal Fee, a Penalty of ₹ 50/- day for the period of default.

In order to monitor prompt payment of Licence Fees, a Register shall be maintained by the Superintendent of Excise. The Superintendent of Excise shall review the Register periodically and issue Notices to defaulters for payment of the prescribed fee and penalty.

Audit of records of the Superintendent of Excise, Tezu, in June 2014 revealed that 11 retail licences were to be renewed between October 2013 and May 2015. The licensees, however, did not renew the licences, as required under the Rules. The Superintendent of Excise also did not take any action to either review the Register or detect the defaulters and realize the prescribed Renewal Fee of ₹ 4.40 lakh and Penalty of ₹ 0.76 lakh. This resulted in non-realization of revenue of ₹ 5.16 lakh.

The case was reported to the Department/Government in August 2014; reply is still awaited (March 2015).