

CHAPTER IV REVENUE SECTOR

4.1 Trend of revenue receipts

4.1.1 The tax and non-tax revenue raised by the Government of Sikkim during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table 4.1.1**:

Table 4.1.1
Trend of revenue receipts

		(₹ in crore)				
Sl. No.		2009-10	2010-11	2011-12	2012-13	2013-14
Revenue raised by the State Government						
I	• Tax revenue	223.65	279.54	293.92	435.48	524.92
	• Non-tax revenue	1,356.44	1,137.76	1,044.57	806.96	794.49
	Total	1,580.09	1,417.30	1,338.49	1,242.44	1,319.41
	Percentage of increase over previous year	(+) 12.50	(-) 10.30	(-) 5.56	(-) 7.18	(+) 6.20
Receipts from the Government of India						
II	• State's share of net proceeds of divisible Union taxes	374.68	524.99	611.65	698.48	762.62
	• Grants-in-aid	1,299.62	1,105.02	1,722.50	1,852.40	2,244.41
	Total	1,674.30	1,630.01	2,334.15	2,550.88	3,007.03
III	Total receipts of State Government (I + II)	3,254.39	3,047.31	3,672.64	3,793.32	4,326.44
IV	Percentage of I to III	49	47	36	33	31

Note: Tax and Non-tax revenue during 2008-09 was ₹ 1,404.50 crore.

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹ 1,319.41 crore) was 31 per cent of the total revenue receipts. The balance 69 per cent of the receipts during 2013-14 was from Government of India. Non-tax revenue and total receipts of the State shown in the table above include gross receipts under State Lotteries.

4.1.2 The details of the tax revenue raised during the period from 2009-10 to 2013-14 are given in **Table 4.1.2**:

Table 4.1.2
Details of Tax Revenue raised

		(₹ in crore)											
Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13	
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
1	Sales Tax/VAT	96.50	121.07	118.50	142.74	160.11	124.19	187.14	227.08	225.00	286.33	20	26
2	Taxes on Income other than Corporation Tax	1.67	2.84	1.92	4.94	2.01	4.86	5.62	6.73	7.01	8.68	25	29
3	State Excise	47.60	57.27	55.50	70.64	67.44	96.26	95.00	111.12	109.00	120.64	15	9
4	Stamps and Registration Fees	3.54	4.48	3.13	5.70	3.26	8.27	7.47	5.35	7.91	6.46	6	21
5	Taxes on Vehicles	7.80	7.88	9.00	10.67	10.00	16.56	15.00	16.38	16.80	18.52	12	13
6	Other Taxes and Duties on Commodities and Services	16.61	27.39	19.39	37.52	22.47	39.17	37.63	63.16	53.40	80.90	42	28
7	Land Revenue	3.45	2.71	3.82	7.33	3.82	4.61	5.48	5.66	6.56	3.39	20	(-) 40
	Total	177.17	223.64	211.26	279.54	269.11	293.92	353.34	435.48	425.68	524.92	20	21

The respective departments reported the following reasons for variations:

Increase:

Sales Tax/VAT: The increase was due to increase in business activity and volume, increase in monitoring activity, computerisation and online tax administration.

State Excise: The increase was due to extensive inspection and touring and opening of Kanchanjunga Distillery Ltd. during 2013-14.

Taxes on Vehicles: The increase was due to increase in number of vehicles in 2013-14.

Other taxes and duties on commodities and services: The increase was due to (i) Extensive inspection and touring and opening of Kanchanjunga Distillery Ltd. during 2013-14 (State Excise); and (ii) Collection of arrears, increased collection from sale of tender (UDHD).

Decrease:

Land Revenue: The decrease was due to less collection under the sub-head Other Receipts under the head Land Revenue.

The other departments despite being requested (May 2014 and August 2014) did not furnish the reasons for variations in receipts from that of the previous year (October 2014).

4.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table 4.1.3**:

Table 4.1.3
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 (+) or decrease (-) in 2013-14 over 2012-13		
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1	Power	165.00	285.83	190.00	87.86	150.00	79.70	100.05	82.90	110.10	98.93	10	19	
2	Interest receipts	3.07	44.18	25.57	28.14	13.91	29.39	21.15	46.00	28.85	67.02	36	46	
3	Police	17.90	14.52	24.42	9.57	39.29	12.89	44.88	49.23	50.29	41.14	12	-16	
4	Road Transport	15.35	20.29	21.20	24.76	23.75	30.89	29.05	29.01	36.04	34.10	24	18	
5	Forestry and Wild Life	8.10	8.79	11.00	12.25	11.00	12.53	13.48	12.28	15.35	14.27	14	16	
6	Other Administrative Services	2.53	4.42	3.19	4.72	2.84	6.68	3.03	9.64	4.29	11.06	42	15	
7	Public Works	3.65	2.89	3.80	3.48	3.80	5.38	4.56	4.70	4.46	4.68	-2	-0.43	
8	Plantations	2.50	1.80	2.70	2.90	2.80	2.59	3.20	3.98	3.50	3.62	9	-9	
9	Water Supply and Sanitation	2.60	2.61	2.82	2.61	3.49	2.90	3.40	2.74	3.87	3.17	14	16	
10	Tourism	1.30	1.62	3.11	3.00	5.00	1.84	5.00	2.13	5.60	2.65	12	24	
11	Medical and Public Health	0.55	1.02	0.56	0.72	0.56	1.27	1.27	1.50	1.27	2.19	0	46	
12	Other Rural Development Programmes	0.10	2.55	2.79	1.17	2.32	1.25	2.32	1.46	1.50	2.13	-35	46	
13	Stationery and Printing	1.51	2.27	1.51	1.52	1.51	1.92	1.51	2.08	1.81	2.05	20	-1	
14	Crop Husbandry	0.34	0.40	0.42	0.51	0.42	0.46	0.07	0.71	0.53	1.45	657	104	
15	Education, Sports, Art and Culture	0.85	1.57	1.21	1.73	1.40	1.35	1.40	1.37	1.69	1.38	21	0.73	
16	State Lotteries ¹	Gross	943.41	949.92	973.85	938.15	1,010.78	844.15	780.99	546.39	776.03	474.37	-1	-13
		Net	(30.00)	(40.90)	(60.00)	(42.54)	(70.00)	(43.62)	(50.00)	(41.43)	(40.00)	(41.47)	-20	0.10
17	Others	3.53	11.76	6.41	14.67	8.67	9.38	10.14	10.84	9.35	30.28	-8	179	
Total		1,172.29	1,356.44	1,274.56	1,137.76	1,281.54	1,044.57	1,025.5	806.96	1,054.53	794.49	3	-2	

Source: Finance Accounts and Estimates of Receipts

The respective Departments reported the following reasons for variation:

Increase:

Road Transport: The increase was due to revision of rates of carriage charges.

¹ Figures in brackets represent net receipts.

Tourism: The increase was due to leasing out of new properties.

Medical and Public Health: The increase was due to increase in user charges collection and fee hike under Prevention of Food Adulteration Act.

Crop Husbandry: The increase was due to more receipts under Agricultural farms.

Decrease:

Police: The decrease was due to renewal of Arms Licence below the anticipated number and also due to non-receipt of reimbursements of expenditure on Police Check Posts for 2011-12 and 2012-13 from Government of India.

The other Departments despite being requested (May 2014 and August 2014) did not intimate the reasons for the variation in receipts from that of the previous year (September 2014).

4.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 in respect of some Heads of Revenue as reported by the departments amounted to ₹ 48.18 crore of which ₹ 1.93 crore was outstanding for more than five years, as detailed in the **Table 4.2.1:**

Table 4.2.1
Arrears of Revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2014	Amount outstanding for more than five years	Replies of Department
1	Police	41.99	-	<ul style="list-style-type: none"> Dues from Delhi Government and others, etc. Reimbursement of expenditure incurred during the year 2011-14 is to be received.
2	Public Works	2.26	0.86	No reply received from the Department.
3	Tourism	0.34	0.34	Legal notice issued to deposit the rent.
4	Animal Husbandry	0.57	0.57	No reply received from the Department.
5	Water Supply and Sanitation	1.76	0.16	Cases with disturbed water supply are remaining without up-to-date payment.
6	Food storage and warehousing	1.26	-	House rent of FCI, Jorethang is yet to be received.
	Total	48.18	1.93	

Source: Information received from departments

It would be seen from the table that recovery of ₹ 1.93 crore was pending for more than five years and no sincere efforts were being made to recover them. Arrears of ₹ 48.18 crore were pending with the departmental authorities.

4.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalisation at the end of the year as furnished by the Commercial Taxes Division (Finance, Revenue and Expenditure Department) in respect of Sales Tax (including VAT) was as below in **Table 4.3.1.**

Table 4.3.1
Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2013-14	Total assessments due	Cases disposed of during 2013-14	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
VAT	2421	793	3214	Nil	3214	0

Regarding 'Nil' disposal during the year, the Commercial Taxes Division, Finance, Revenue and Expenditure Department stated that under the provisions of the SVAT Act 2005, it is not mandatory to assess all the dealers. However, all the returns filed by the dealers were scrutinised.

The fact remained that despite the addition of new cases during the year, the Commercial Taxes Division did not dispose off any case.

4.4 Evasion of tax detected by the Department

No Department reported any case of evasion of tax.

4.5 Pendency of Refund Cases

As per information received in respect of Commercial tax/VAT, there was no refund case during the year. No information about refund cases was intimated by any other department.

4.6 Response of the departments/Government towards Audit

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

IRs issued upto December 2013 disclosed that 292 paragraphs involving ₹ 598.29 crore relating to 97 IRs remained outstanding at the end of June 2014. The details along with the corresponding figures for the preceding two years are mentioned in the following table:

Table 4.6.1
Details of pending Inspection Reports

	June 2012	June 2013	June 2014
Number of outstanding IRs	127	131	97
Number of outstanding audit observations	332	328	292
Amount involved (₹ in crore)	814.27	710.16	598.29

4.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2014 and the amounts involved are mentioned in the **Table 4.6.2**:

Table 4.6.2
Department-wise details of IRs

Sl. No.	Name of Department	Nature of Receipts	No. of Outstanding IRs	No. of Outstanding Audit Observations	Money value involved (₹ in crore)
1	Finance, Revenue and Expenditure (Commercial Taxes Division)	VAT/Taxes on Sales, Trade, etc.	13	74	148.15
2	Finance, Revenue and Expenditure (Income Tax Division)	Income Tax	14	60	32.95
3	Excise (Abkari)	State Excise	9	24	17.20
4	Land Revenue and Disaster Management	Land Revenue	22	27	0.87
5	Transport	Taxes on Motor Vehicles	6	14	3.68
6	Mines, Minerals and Geology	Non-ferrous Mining and Metallurgical Industries	3	3	3.35
7	Forest, Environment and Wildlife Management	Forestry and Wildlife	5	12	0.15
8	Finance, Revenue and Expenditure (Directorate of Sikkim State Lotteries)	Lottery	4	11	34.18
9	Energy and Power	Power	10	35	347.49
10	Urban Development and Housing	Urban Development	11	32	10.27
Total			97	292	598.29

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs for 5 IRs (issued during 2013-14) upto June 2014. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that heads of offices and heads of the Departments did not initiate adequate action to rectify the defects, omissions and irregularities pointed out by the AG through IRs.

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

4.6.2 Departmental Audit Committee Meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2013-14 and the paragraphs settled are mentioned in **Table 4.6.3**.

Table 4.6.3
Details of Departmental audit committee meetings

Sl. No.	Head of revenue	Number of meetings held	Number of IR settled	Number of paras settled	Amount
1	Transport Department	01	02	13	1.53
2	Forest Department	01	41	68	43.39
Total		02	43	81	44.92

(₹ in crore)

The overall progress of settlement of paragraphs needs to be improved in view of the huge pendency of the IRs and paragraphs.

4.6.3 Non-production of records to audit for scrutiny

The programme of local audit of Tax revenue/non- tax revenue offices is drawn up sufficiently in advance and intimation are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During the year 2011-12 as many as 48 assessment files, returns, refunds, registers and other relevant records were not made available to audit involving tax effects of unknown amount. Break-ups of these cases are given in **Table 4.6.4**.

Table 4.6.4
Details of non-production of records

Name of the Office/Department	Year in which it was to be audited	Number of cases not audited	Tax amount
Commercial Taxes Division (Finance, Revenue and Expenditure Department)	2012-13	48	Not known

4.6.4 Response of the departments to the draft audit paragraphs

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

Four draft paragraphs proposed for inclusion in the Audit Report of the Comptroller and Auditor General of India for the year ended March 2014 were forwarded (July 2014) to the Secretaries/Commissioners of the respective departments through demi-official letters. The administrative Secretaries/Commissioners furnished replies in respect of all draft paragraphs.

4.6.5 Follow up on Audit Reports – summarised position

The Rules of Procedures of the Committee on Public Accounts of the Sikkim Legislative Assembly (internal working) 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 the audit paragraphs of the Reports were being delayed inordinately. 20 paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Sikkim for the years ended 31 March 2010, 2011, 2012 and 2013 were placed before the State Legislative Assembly between March 2011 to June 2014. Action taken explanatory notes in respect of 13 paragraphs from 4 departments (Finance, Revenue and Expenditure Department, State Excise, Transport and Labour) had not been received for Audit Reports for the years ending 31 March 2010, 2011 and 2012.

During 2013-14, the PAC discussed Audit Report for the year 2008-09 and its recommendations were incorporated in their 96th Report (2014). However, ATNs have

not been received by the PAC in respect of one performance review and two paragraphs discussed pertaining to Commercial Taxes Division of Finance, Revenue and Expenditure Department.

4.7 Analysis of the mechanism for dealing with issues raised by Audit

To analyse the system of addressing the issues highlighted in the IRs/Audit Reports by the departments/Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years in respect of Transport Department is evaluated and included in this Report.

The succeeding paragraphs 4.7.1 to 4.7.2 discuss the performance of the Transport Department in dealing with the cases detected in course of local audit conducted during the last ten years and also the cases included in the Audit Reports for the years 2004-05 to 2013-14.

4.7.1 Position of Inspection Reports

The summarised position of IRs issued during the last ten years, paragraphs included in these Reports and their status as on 30 June 2014 are given in the following table:

Table 4.7.1
Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2004-05	2	1	0.44	1	4	0.41	0	1	0.10	3	4	0.75
2005-06	3	4	0.75	1	7	0.25	0	0	0.00	4	11	1.00
2006-07	4	11	1.00	1	7	0.37	0	4	0.04	5	14	1.33
2007-08	5	14	1.33	1	4	0.51	2	8	0.87	4	10	0.97
2008-09	4	10	0.97	1	4	0.67	1	6	0.59	4	8	1.05
2009-10	4	8	1.05	1	4	1.02	1	4	0.67	4	8	1.40
2010-11	4	8	1.40	0	0	0.00	0	0	0.00	4	8	1.40
2011-12	4	8	1.40	1	3	0.95	0	0	0.00	5	11	2.35
2012-13	5	11	2.35	2	9	2.11	0	0	0.00	7	20	4.46
2013-14	7	20	4.46	1	5	0.96	2	14	1.71	6	11	3.71

Except once, the Government did not arrange Audit Committee meetings between the Department and AG's office to settle the old paragraphs during 2013-14.

4.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years accepted by the Department and the amounts recovered thereagainst are mentioned in the following table:

Table 4.7.2

Year of Audit Report	No. Of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2004-05	1	0.37	1	0.37	0.17	0.17
2005-06	1	1.39	1	1.39	Nil	0.17
2011-12	1	0.60	1	0.60	Nil	0.17

It is evident from the preceding table that the progress of recovery even in accepted cases was very slow during the entire period of last ten years. The recovery of accepted cases

was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been put in place by the Department/Government. Further, the arrear cases including accepted audit observations were not available with the Transport Department. In the absence of a suitable mechanism, the Department could not monitor the recovery of accepted cases.

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

4.8 Action taken on the recommendations accepted by the departments/ Government

The draft performance reviews conducted by the AG are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These reviews are also discussed in the exit conferences and the Department's/Government's views are included while finalising the reviews of the Audit Reports.

The following reviews on the Commercial Taxes Division (Finance, Revenue and Expenditure Department) had featured in the last five year's Audit Report. The details of recommendations and their status is given in the following table:

Table 4.8.1

Year of AR	Name of the Review	No. of recommendations	Details of the recommendation	Status
2008-09	Performance Audit on transition from Sales tax to VAT	8	Implement computerisation of VAT system completely and effectively in all areas.	Computerisation of VAT implemented under MMPCT.
			Establish effective mechanism to review database at periodic interval and to prepare database of dubious/risky dealers.	Such mechanism has been established under the eSEVA ² .
			Establish effective mechanism to ensure submission of regular and timely returns by the dealers.	Returns have to be submitted on time, else the TIN of the dealer gets blocked by the system. Hence effective mechanism established.
			Establish effective mechanism for scrutiny of every returns submitted by the dealers, assessment of dealers and VAT audit of selected dealers.	Scrutiny of returns is mandatory and is being done before acceptance.
			Fix responsibility at various levels in the Department for strict compliance of codal provisions to avoid tax evasion by any dealer.	All the penal provisions are implemented before and after assessment.
			Ensure fixing the quantum of minimum penalty for each kind of offences and to continue VAT Fraud Task Force	Minimum penalty is provided in the SVAT Act/Rules.
			Strengthen internal control mechanism including internal audit.	Internal Audit section established with the Joint Commissioner/Audit as Head of the Section.
2010-11	Performance Audit on Utilisation of Declaration Forms in Inter State Trade and Commerce	8	Review and rectify various loopholes/deficiencies of SVAT Act and Rules.	SVAT Act/Rules have been amended to rectify various loopholes.
			Maintain data bank of dealer involved in Inter State Trade and Commerce.	Such provision exists in the eSEVA.
			Print Declaration form assessing its requirements taking into account pace of issue of declaration forms.	All the declaration forms are issued online.
			Maintain proper records of declaration forms printed, issued and closing stock.	Such records are maintained in the system since the Forms are issued online.

² Commercial Taxes Division's tax administration system for online payment, e-return filing, waybill endorsement, etc.

		Ensure issue of declaration form to the dealers only after receipt of details of utilisation of declaration forms issued earlier.	Issue of declaration forms are done after verification and acceptance of the request.
		Issue declaration forms chronologically and not randomly to have a track of declaration forms.	Declaration forms are being issued online and records are available in the system.
		Install a system of verification of each and every declaration form submitted by the dealers with the database available in the TINXSYS website before allowing exemption/concession of tax.	Such system has been established and is under effective use.
		Install a system picking up a sample of declaration forms and taking them up for further verification with the concerned States and also a system of uploading the details of utilisation of declaration forms in the TINXSYS website.	
		Ensure submission of CST returns by every dealer and assess all dealers involved in Inter State trade and commerce.	CST returns to be filed online. Assessment of the dealers are on the basis of the assignment by the Commissioner.

NB: Status as in the table is based on departmental replies.

4.9 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which inter-alia include critical issues in Government revenues and tax administration, i.e. budget speech, white paper on state finances, Reports of the Finance Commission (State and Central), recommendations of the taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during five years, etc.

During the year 2013-14, there were 18 auditable units, of which six units were planned and audited which is 33 *per cent* of the total auditable units.

4.10 Results of audit

4.10.1 Position of local audit conducted during the year

Test-check of the records of seven units under Revenue departments (Finance Revenue and Expenditure (Commercial Taxes Division and State Lotteries), Urban Development and Housing, Excise, Transport, Forest, Environment and Wildlife Management and Energy and Power) conducted during the year 2013-14 revealed irregularities involving revenue aggregating ₹ 142.06 crore in 59 cases. During the course of the year, the departments concerned accepted all these cases which were pointed out in audit during 2013-14.

4.11 Coverage of this Report

This Report contains three paragraphs (selected from the audit detections made during the local audit referred to above) involving financial effect of ₹ 4.80 crore. The Departments have accepted audit observations involving ₹ 3.11 crore but no amount has been recovered. These are discussed in succeeding paragraphs.

EXCISE (ABKARI) DEPARTMENT

4.12 Non-realisation of revenue

Despite non-receipt of requisite Excise Verification Certificate from the exporter, the Department had not levied and realised excise duty and fees amounting to ₹ 68.09 lakh on the consignments.

According to Rule 17 of Sikkim Foreign Liquor (Import, Export and Transport) Rules 1993, the exporter is bound to deliver the consignment at the importing place and obtain the Excise Verification Certificate (EVC) from the Excise Officer of the importing place against the export pass within three months from the date of issue of export pass, failing which the excise officer may levy on such consignment the full rates of excise duty and fees at the rates in force in the States at the time export pass was issued.

Audit of records (September 2013) of Excise (Abkari) Department for the year 2011-13 on export of alcoholic beverages revealed that two Distilleries/Breweries namely M/s Himalayan Distilleries Ltd, Mazitar and M/s Denzong Albrew Ltd, Mulukey, Rhenock exported alcoholic beverages to various destinations outside the State. Against the requirement of obtaining EVCs by the exporter from the Excise offices of the importing place, the requisite EVCs on export of 36,400³ cases of alcoholic beverages involving duties of ₹ 1.16 crore were not obtained.

On being pointed out by audit, the Department submitted (July 2014) the EVC of 20500 cases⁴ of alcoholic beverages. However, the Department had not raised demand for duties on consignment at full rates of excise duty and fees on balance of 15900 cases⁵ as envisaged under the rule mentioned above. This resulted in non-realisation of duty amounting to ₹ 68.09 lakh from the exporting unit.

FINANCE, REVENUE AND EXPENDITURE DEPARTMENT (DIRECTORATE OF SIKKIM STATE LOTTERIES)

4.13 Non-realisation of gaming fees and penalty

Department failed to realise ₹ 2.43 crore from M/s Mayfair Hotels and Resorts (Sikkim), Ranipool as mandatory gaming fee for casino games.

As per Finance, Revenue and Expenditure Department notification dated 30 March 2011, the licensee shall pay for gaming fees to the State Government at the rate 10 (ten) per

³ M/s Himalayan Distilleries Ltd, Mazitar for 18,700 cases including ₹ 91.25 lakh and M/s Denzong Albrew Ltd, Mulukey, Rhenock for 17,700 cases including ₹ 24.79 lakh.

⁴ M/s Himalayan Distilleries Ltd, Mazitar for 4,600 cases and M/s Denzong Albrew Ltd, Mulukey, Rhenock for 15,900 cases.

⁵ M/s Himalayan Distilleries Ltd, Mazitar for 14,100 cases and M/s Denzong Albrew Ltd, Mulukey, Rhenock for 1,800 cases.

cent of the gross gaming yield or one crore, whichever is higher for the first year and thereafter with incremental increase of 15 per cent per year on Minimum Assured Revenue (MAR) for each of the remaining four years. As per gazette notification dated 20 June 2012, the monthly gaming fees shall be payable on the 10th of the succeeding month, failing which a penal interest at the rate 12 per cent per annum shall be imposed.

Audit of records (January-February 2014) of Directorate of Sikkim State Lotteries (DSSL) revealed that M/s Mayfair Hotels and Resorts (Sikkim), Ranipool, which was granted license for operation of casino games for five year period from 1 June 2011, was operating games without payment of prescribed gaming fees to the Government.

In response to DSSL's direction (25 February 2012) to deposit the prescribed gaming fee, the Director, Trio Ventures (P) Ltd. on behalf of licensee requested the Government to reduce the minimum annual payment of ₹ one crore to ₹ 30 lakh and the rate of tax exceeding MAR to three per cent against the existing ten per cent till the company can stand on its own feet. A Committee, constituted to examine the tenders/bids, examined the said request and observed that it was beyond its purview to dwell upon the matter as the Sikkim Casino Games (Control & Tax) Act 2002 and the Sikkim Casino Games (Control & Tax) Rules 2007 do not have any provision for relaxation/reduction of the gaming fees. Committee's decision was approved (10 January 2013) by the Chief Minister and the licensee was accordingly intimated (19 January 2013).

However, despite the lapse of more than three years, the DSSL neither realised the prescribed gaming fee nor cancelled the licence as per provisions of the Casino (Control & Tax) Act and Rules. The dues towards non-realisation of penalty alongwith outstanding dues amounted to ₹ 2.43 crore for the period from 2011 to August 2014 as detailed in the **Appendix 4.13.1**.

Thus, inadequate action of the Department resulted in non-realisation of fees and leviable penalty to the tune of ₹ 2.43 crore over a period of one to three years (August 2014).

In reply the DSSL stated (August 2014) that it is in the process of realisation of outstanding gaming fee and as a result of their persuasion, the said company has deposited a total of ₹ 1.40 crore including penalty for the period from June 2011 during December 2012 to July 2014. Fact remained that ₹ 2.43 crore excluding the amount deposited by the Company remained to be realised till August 2014.

4.14 Loss of revenue

Disregarding of clause in the agreement relating to applicable percentage rate of Minimum Assured Revenue on pro-rata basis resulted in a loss of ₹ 1.69 crore.

An agreement was drawn (August 2001) between Government of Sikkim and Tashi Delek Gaming Solutions Pvt. Ltd (TDGSPL), a Marketing Agent (MA), for maintenance and marketing of the State's online lottery. The contract was for seven years from August 2001 with provision that the agreement could be revised and further extended as mutually agreed upon by both the parties from time to time.

According to the revised agreement (December 2003), the sale proceeds were to be deposited by the MA in the Government account within 15 days from the date of the draw. Subsequently, an interim agreement was signed (18 November 2005). Clause 1 of

the interim agreement specified that the MA was required to pay at the rate of 5 *per cent* (for the existing games) and 1 *per cent* (for the additional games) of the sale proceeds, subject to a Minimum Assured Revenue (MAR) of ₹ 10 crore per annum including ₹ 4.50 crore (approx.) payable to Government for the existing 4 games (one daily and three weekly games). The extended agreement entered into (27 September 2010) further clarified that failure to comply with the terms of agreement would attract a penal interest at the rate of 12 *per cent* from 1 October 2010. The additional clause was acknowledged, accepted and confirmed (29 September 2010) by the MA. The agreement continued to be extended till 15 December 2012. A new MA (M/s Pan India Network Ltd.) was appointed on 16 December 2012.

Audit (February 2014) of records of the Directorate of Sikkim State Lotteries (DSSL) revealed that DSSL asked (8 November 2012) the MA (M/s TDGSPL) to deposit the part MAR at the rate of ₹ 10 crore per annum for the period from 1 October 2012 to 15 December 2012. The MAR was charged on pro-rata basis from the earlier MA disregarding the clause of interim agreement (18 November 2005) being 5 *per cent* and 1 *per cent* of the sale proceeds which resulted in a loss of revenue of ₹ 1.69 crore to the Government as detailed in **Appendix 4.14.1**.

In their reply the DSSL stated (March 2014) that the agreement dated 18 November 2005 could not be executed as the MA repeatedly represented to the Government for exemption of clause 1 of the said agreement on the plea that sale of Sikkim lottery tickets were stopped by some States within their respective jurisdictions.

The reply of the DSSL is not tenable as the sale of Sikkim State Lotteries was stopped in States between 1 January 2000 (Andhra Pradesh) and 1 September 2010 (Kerala). It was only after the stoppage that the MA acknowledged, accepted and confirmed (29 September 2010) the extended agreement of DSSL (27 September 2010). Further, the sale proceeds during the period 2009-10 to 2011-12 and for the 1st three quarters of 2012-13 up to 15 December 2012⁶ showed an increasing trend, indicating no impact of stoppage of sales of lottery tickets in some of the States. Therefore, the injudicious decision exhibited *vis-à-vis* the existing applicable percentage rate on MAR of 10 crore per annum, resulted in a loss of revenue to the Government amounting to ₹ 1.69 crore.

⁶ Sale of lottery tickets: 2009-10: ₹ 517.26 crore, 2010-11: ₹ 607.60 crore, 2011-12: ₹ 758.75 crore and 2012-13 (up to 15 December 2012 and excluding Super Triplex/Science Online lottery): ₹ 726.46 crore.