

**CHAPTER-III**  
**REVENUE SECTOR**



## CHAPTER-III

### REVENUE SECTOR

#### 3.1 Trend of revenue receipts

**3.1.1** The Tax and Non-tax revenue raised by Government of Mizoram during the year 2015-16, the State's share of net proceeds of divisible Union taxes and duties assigned to States and Grants-in-aid received from Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned in the following table.

**Table - 3.1.1**

(₹ in crore)

Sl. No.	Particular	2011-12	2012-13	2013-14	2014-15	2015-16
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	Tax revenue	179.07	223.14	229.78	266.52	358.41
	Non-tax revenue	168.03	212.80	194.26	241.96	297.63
	<b>Total</b>	<b>347.10</b>	<b>435.94</b>	<b>424.04</b>	<b>508.48</b>	<b>656.04</b>
<b>2.</b>	<b>Receipt from GoI</b>					
	• State's share of net proceeds of divisible Union taxes and duties	827.38	785.96	858.08	910.67	2,348.11
	• Grants-in-aid	2,650.42	3,314.84	3,482.73	4,091.95	3,672.25
	<b>Total</b>	<b>3,477.80</b>	<b>4,100.80</b>	<b>4,340.81</b>	<b>5,002.62</b>	<b>6,020.36</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>3,824.90</b>	<b>4,536.74</b>	<b>4,764.85</b>	<b>5,511.10</b>	<b>6,676.40</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>9.07</b>	<b>9.61</b>	<b>8.90</b>	<b>9.23</b>	<b>9.83</b>

Source: State Finance, Government of Mizoram, 2015-16

The above table indicates that during the year 2015-16, the revenue raised by the State Government (₹ 656.04 crore) was 9.83 per cent of the total revenue receipts. The balance 90.17 per cent of receipts during 2015-16 was from GoI.

**3.1.2** The details of Budget Estimates (BE) and Tax revenue raised during the period from 2011-12 to 2015-16 are given in the following table.

**Table -3.1.2: Details of Tax Revenue raised**

(₹ in crore)

Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15 Actual
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
Taxes on Sales, Trades etc.	135.26	142.16	158.22	175.87	190.00	183.34	218.08	211.95	232.66	247.04	16.56
Motor Vehicles Tax	15.60	16.71	23.17	22.83	19.38	19.42	22.24	17.03	23.57	19.44	14.15
Others <sup>1</sup>	29.47	20.20	20.67	24.44	25.44	27.02	30.07	37.54	70.89	91.93	144.89
<b>Total</b>	<b>180.33</b>	<b>179.07</b>	<b>202.06</b>	<b>223.14</b>	<b>234.82</b>	<b>229.78</b>	<b>270.39</b>	<b>266.52</b>	<b>327.12</b>	<b>358.41</b>	<b>34.48</b>

Source: Finance Accounts & Annual Financial Statement Government of Mizoram

The Departments did not furnish the reasons for variation in receipts from that of the BE and the actuals from the previous year (January 2017)

**3.1.3** The details of the Non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in the following table:

**Table -3.1.3**

(₹ in crore)

Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
Interest receipts	32.00	15.60	21.76	16.86	24.50	17.93	19.88	19.88	20.00	30.73	54.58
Power	118.93	109.52	119.39	111.27	144.23	109.05	144.36	144.36	162.00	166.35	15.23
Others	90.25	42.92	65.60	84.67	83.05	67.28	77.18	77.72	87.83	100.55	29.38
<b>Total</b>	<b>241.18</b>	<b>168.04</b>	<b>206.75</b>	<b>212.80</b>	<b>251.78</b>	<b>194.26</b>	<b>241.42</b>	<b>241.96</b>	<b>269.83</b>	<b>297.63</b>	<b>23.01</b>

Source: Finance Accounts & Annual Financial Statement Government of Mizoram

The Departments did not furnish the reasons for variation in receipts from the BE and the actuals from the previous year (January 2017).

### 3.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2016 on some principal heads of revenue amounted to ₹ 15.51 crore of which ₹ 9.14 crore was outstanding for more than five years, as detailed in the

<sup>1</sup> Others includes State Excise, Taxes on Goods and Passengers, etc.

following table:

**Table - 3.2.1: Arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2016	Amount outstanding for more than 5 years as on 31 March 2016
1	Taxes/ VAT on Sales, Trades etc.	15.51	9.14
2	Taxes on Vehicles	The Department has not furnished the information	
3	Taxes on Goods and Passengers	The Department has not furnished the information	
<b>Total</b>		<b>15.51</b>	<b>9.14</b>

Information on total amount outstanding as well as amount outstanding for more than five years as on 31 March 2016 in respect of Taxes on Vehicles and Taxes on Goods and Passengers were not furnished by the Department (January 2017).

### 3.3 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 finalization at the end of the year as furnished by the Taxation Department in respect of sales tax, motor spirit tax, luxury tax and tax on works contracts was as shown in the following table:

**Table - 3.3.1: Arrears in assessments**

Head of revenue	Opening balance as on 31 March 2015	New cases due for assessment during 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year 2015-16	Percentage of disposal (Col.5 to 4)
1	2	3	4	5	6	7
Taxes/ VAT on Sales, Trades etc.	3,219	779	3,998	1,005	2,993	25.14

Source: Departmental records.

It can be seen from the above table that out of 3,998 assessment due the disposal was 1,005 (25.14 per cent) at the end of the year 2015-16.

### 3.4 Evasion of tax detected by the Department

The details of cases of tax evasion detected by the Taxation and Transport Department, cases finalized and the demands for additional tax raised as reported by the Department are given in the following table:

**Table – 3.4.1**

Name of tax/duty	Case pending as on 31 March 2015	Cases detected during the year 2015-16	Total	Number of cases in which assignments/ investigation completed and additional demand including penalty etc., raised during the year 2015-16		Number of pending cases as on 31 March 2016
				No. of cases	₹ in lakh	
1	2	3	4	5	6	7
Sales Taxes/VAT	407	310	717	317	3.58	400
Taxes on Vehicles	The Department has not furnished the information					
Taxes on Goods and Passengers	The Department has not furnished the information					

Information on evasion of tax detected by the Transport Department had not been received though the same were called for (July 2016).

### 3.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Departments is given in the following table:

**Table –3.5.1: Details of pendency of refund cases**

(₹ in crore)

Sl. No.	Particulars	Sales tax/VAT		State Excise	
1	Claims outstanding at the beginning of the year	NIL	NIL	NIL	NIL
2	Claims received during the year	4	0.05	NIL	NIL
3	Refunds made during the year	4	0.05	NIL	NIL
4	Balance outstanding at the end of year	NIL	NIL	NIL	NIL

Source: Departmental records.

Thus, there was no pending of refund case at the end of year 2015-16.

### 3.6 Response of the Government / departments towards audit

The Accountant General (Audit) (AG), Mizoram conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with 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 copies to the next higher authorities for taking prompt corrective action. 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 AG

within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of the Departments and the Government.

Inspection Reports issued up to December 2015 disclosed that 360 paragraphs involving ₹ 63.25 crore relating to 128 IRs remained outstanding at the end of June 2016 as mentioned in the following table along with the corresponding figures for the preceding two years:

**Table –3.6.1: Details of pending Inspection Reports**

Particulars	June 2014	June 2015	June 2016
Numbers of outstanding IRs	141	139	128
Number of outstanding audit observations	447	427	360
Amount involved (₹ in crore)	61.77	68.98	63.25

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in the following table:

**Table - 3.6.2: Department wise details of IRs**

Sl. No.	Name of Department	Name of Receipts	No. of Outstanding IRs	No. of Outstanding Audit Observations	Money Value involved (₹ in crore)
1.	Land Revenue	Land Revenue	11	23	2.92
2.	Excise	State Excise	6	11	0.31
3.	Taxation	Taxes/VAT on Sales, Trade <i>etc.</i>	38	146	20.61
4.	Transport	Taxes on Vehicles/ Taxes on Goods and Passengers	16	44	11.51
5.	Forest & Environment	Forest & Wild Life	23	77	9.88
6.	Geology and Mineral Resources	Non-ferrous Mining and Metallurgical Industries	4	17	15.04
7.	Other	Other taxes	30	42	2.98
<b>Total</b>			<b>128</b>	<b>360</b>	<b>63.25</b>

Audit did not receive even the first replies required to be received from the Heads of Offices within one month from the date of issue of the IRs for 5 IRs issued up to December 2015. The pendency of the IRs due to non-receipt of the replies is indicative of the fact that the Heads of Offices and Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

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

### **3.6.1 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. However, no audit committee meeting was held during 2015-16.

### **3.6.2 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 (Audit), Mizoram 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. Non-receipt of the replies from the Departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Five draft paragraphs and one Performance Audit were sent to the Principal Secretaries/Secretaries of the respective Departments and their responses have been received and incorporated appropriately.

### **3.6.3 Follow up on the Audit Reports – summarized position**

The internal working system of the Public Accounts Committee (PAC), 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 included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Mizoram for the year ending 31 March 2015 placed before the State Legislature Assembly on 31 August 2016. Action Taken Notes (ATN) in respect of 06 paragraphs (including performance audit) from 03 departments had not been received for the Audit Report year ended 31 March 2015 so far (January 2017).

The PAC discussed 04 selected paragraphs pertaining to the Audit Reports for the years from 2010-11 to 2011-12.

## **3.7 Analysis of the mechanism for dealing with the issues raised by Audit**

To analyse the system of addressing the issues highlighted in the Inspection Reports/ Audit Reports by the Department/Government, the action taken on the 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 Taxation Department and cases detected in the course of local audit during the last six years and also the cases included in the Audit Reports for the years 2005-06 to 2014-15.

### **3.7.1 Position of Inspection Reports**

The summarized position of Inspection Reports issued during the last six years, paragraphs included in these Reports and their status as on 30 June 2016 are as per the following table:

Table - 3.7.1: Position of Inspection Reports

(₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
2011-12	59	163	29.33	10	48	9.13	3	22	2.64	66	189	35.82
2012-13	66	189	35.82	8	43	4.48	2	20	15.90	72	212	24.40
2013-14	72	212	24.40	11	66	5.60	2	12	2.49	81	266	27.51
2014-15	81	266	27.51	6	44	7.25	1	29	2.99	86	281	31.77
2015-16	86	281	31.77	4	46	6.04	1	47	4.56	89	280	33.25
2016-17	89	280	33.25	0	0	0	21	92	9.56	68	188	23.69

The Department was periodically reminded to furnish replies to the outstanding audit observations. Despite such efforts, 68 IRs and 188 paragraphs having money value of ₹ 23.69 crore remained outstanding as on 30 June 2016 due to non-receipt of appropriate replies from the Department.

### 3.7.2 Recovery of accepted cases

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

Table –3.7.2

(₹ in crore)

Year of Audit Report	No. of paragraphs included	Money value of the paragraphs	No. of paragraphs accepted	Money value of accepted paragraphs	Amount recovered as on 31 March 2015	Cumulative position of recovery of accepted cases
2005-06	15	2.23	4	0.20	0.02	0.02
2006-07	9	5.70	NIL	NIL	0.00	0.02
2007-08	3	0.84	0	0	0.00	0.02
2008-09	2	3.82	2	3.82	0.00	0.02
2009-10	0	0	0	0	0.00	0.02
2010-11	3	15.90	1	0.29	0.00	0.02
2011-12	3	1.36	2	1.27	0.07	0.09
2012-13	3	1.88	3	1.88	0.35	0.44
2013-14	5	2.38	4	1.95	0.14	0.58
2014-15	4	4.15	4	4.15	0.15	0.73
<b>Total</b>	<b>47</b>	<b>38.26</b>	<b>16</b>	<b>13.36</b>	<b>0.73</b>	

The Departments need to evolve a strong mechanism to monitor and ensure recovery of accepted cases.

It could be seen from the above table that during the last ten years, the Taxation Department have accepted 16 paragraphs having money value of ₹ 13.36 crore, out of which only ₹ 0.73 crore has been recovered as on 2015-16.

### **3.8 Audit planning**

The unit offices under various Departments are categorized into high, medium and low risk units according to their revenue positions, past trends of 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 the past five years, *etc.*

During the year 2015-16, there were 64 auditable units, of which 18 units were planned and 17 units had been audited, which is 26.56 *per cent* of the total auditable units.

Besides the compliance audits mentioned above, one Performance Audit on Computerization of Transport Department was also taken up.

### **3.9 Results of audit**

#### **Position of local audit conducted during the year**

Test check of the records of 17 units of Taxation, Environment & Forest, Excise and other Departments conducted during the year 2015-16 revealed underassessment/short levy/loss of revenue/non-realisation of outstanding revenue aggregating ₹ 753.10 lakh in 45 cases. Of these the Departments recovered ₹ 12.14 lakh in three cases and ₹ 180.89 lakh relating to the previous years in 23 cases.

### **3.10 Coverage of this Report**

This Report contains five paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) and one Performance Audit on “Computerisation of Transport Department”. The Departments/Government have accepted audit observations involving ₹ 159.80 crore out of which ₹ 0.02 crore has been recovered. The replies in the remaining cases have not been received (January 2017). These are discussed in succeeding paragraphs.

## PERFORMANCE AUDIT

### TRANSPORT DEPARTMENT

#### 3.11 Performance Audit on Computerisation of Transport Department in Mizoram

The Ministry of Road Transport and Highways in an effort to modernise and streamline service delivery, transparency and revenue monitoring provided standardised software 'VAHAN' for registration of vehicles and 'SARATHI' for issuance of Driving Licenses (DLs) to the Transport Department, Government of Mizoram. The applications were developed by National Informatics Centre which also provided technical assistance, free of charge, for customisation and backend integration. The Performance Audit on Computerisation of Transport Department in Mizoram revealed the following significant findings

#### *Highlights:*

**Computerisation in the Department was executed without proper documentation and planning.**

*[Paragraph 3.11.8]*

**All modules which were already available in the software were not being utilised.**

*[Paragraph 3.11.9]*

**Non-existence/Delayed installation of physical components resulting in delayed service delivery by five days to 3,172 days.**

*[Paragraph 3.11.10]*

**The physical, data security and logical access controls in existence were weak. There was no meaningful user login information and thereby the audit trail was lost.**

*[Paragraph 3.11.11.1 to 3.11.11.5]*

**There was compilation error of data already captured under VAHAN on generation of daily transaction reports rendering it unreliable.**

*[Paragraph 3.11.11.6]*

**Business rules were not mapped into the software to ensure compliance with the provisions of the existing rules and acts.**

*[Paragraph 3.11.11.9]*

**Incorrect collection of late registration fine from 3,067 vehicles amounting to ₹ 3.07 lakh and non-levy of late registration fine from 7,142 vehicles amounting to ₹ 7.14 lakh.**

*[Paragraph 3.11.11.10]*

### **3.11.1 Introduction**

To achieve faster and better services, transparency and better monitoring of revenues generated from implementation of the Motor Vehicle Act and Rules, the Government of India provided standardised software 'VAHAN' for registration of vehicles and 'SARATHI' for issuance of Driving Licenses (DLs), developed by National Informatics Centre (NIC) to the Transport Department (Department), Government of Mizoram. The Department was also provided with technical assistance from the NIC, free of charge, for customisation and backend integration.

### **3.11.2 Objectives of the computerisation**

The objectives of computerisation were to:

- bring about transparency in the system;
- ease and speed up all work related to vehicle registrations and driving license;
- connect the entire State using the networking facility;
- assist in monitoring work related to vehicle registrations and driving licenses; and,
- create a State Register of vehicles registered and driving licenses issued.

### **3.11.3 Organisational setup**

The Secretary, Transport Department, Government of Mizoram is the administrative head of the Department. He is assisted by the Director of Transport (DT) who heads the Directorate of the Department with the assistance of four Joint Directors<sup>2</sup>. The DT is also the Secretary of the State Transport Authority (STA). At the district level, the office is headed by a District Transport Officer (DTO). There are eight DTOs<sup>3</sup> in the State. The function of DT is to oversee the functioning of the various wings of the Department and implementation of the Acts and Rules governing the assessment, levy and collection of motor vehicle taxes, fees and fines while the DTO is responsible for enforcing the provision of the Acts and Rules. The primary function of the STA is to grant inter-state permits and regional road permits to transport vehicles.

### **3.11.4 Audit Objectives**

The objectives of the audit are to get a reasonable assurance that:

- the objective of computerisation through the NIC developed computer applications of VAHAN and SARATHI were achieved and time schedule adhered to with special emphasis on internal control mechanism;
- NIC developed computerised systems were completely utilised (module-wise) including the correctness and completeness of the data captured by the DTOs;

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<sup>2</sup> (i) Joint Director (Operation), (ii) Joint Director (Hqtrs.), (iii) Joint Director (STA), and (iv) Joint Director (MV)

<sup>3</sup> DTOs Aizawl District, Lunglei District, Saiha District, Champhai District, Kolasib District, Serchhip District, Lawngtlai District and Mamit District.

- connectivity was established amongst the DTOs in the State for creation of State Registers of vehicles and licenses; and
- reliable general and security controls were in place to ensure data security and audit trail besides back up of data and to have an overall assurance of the functioning of the computerised system.

### 3.11.5 Audit Criteria

The Performance Audit has adopted the following criteria:

- Central Motor Vehicles Act, 1988 (MV Act).
- Central Motor Vehicles Rules, 1989
- Mizoram Motor Vehicle Taxation (Amendment) Act, 2011.
- Mizoram Motor Vehicle (Taxation) Rules, 1997.
- Mizoram Passengers and Goods (Taxation) Act, 2005.
- Mizoram Passengers and Goods (Taxation) Rule, 2006.
- Notifications issued by the Government of India.
- Notifications/circulars issued by the State Government.
- VAHAN and SARATHI software as developed by NIC.

### 3.11.6 Scope and methodology of Audit

The Performance Audit was conducted between April 2016 and September 2016. The Performance Audit covered implementation and examination of controls in the 'VAHAN', 'SARATHI' and 'National Permit System (NPS)' application software. Audit checked the records of DT/STA, imported and analysed data up to March 2016 of all the eight DTOs of the State using IDEA<sup>4</sup> and MS Excel and also visited the DTOs of Aizawl and Lunglei to verify the security on physical and logical access control.

The entry conference for the Performance Audit was held on 27 April 2016 in which the objectives, scope and methodology of audit were explained. The conference was attended by the Deputy Secretary from the Government and Joint Director from the Department. The draft Performance Audit report was sent to the Government/Department in September 2016 for their response. The Department submitted their reply on 24 November 2016. An exit conference was held on 28 November 2016. The Performance Audit Report has been finalised after considering the views of the Government and deliberations in the exit conference.

### 3.11.7 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the Department and NIC, Mizoram in providing the requisite information and records for the Information Technology Audit on Computerisation of Transport Department.

<sup>4</sup> *Interactive Data Extraction and Analysis*

## AUDIT FINDINGS

### 3.11.8 Planning & Implementation of VAHAN & SARATHI

The implementation of a new IT regime requires proper planning and documentation in order to ensure that objectives are achieved in a timely manner with minimum break in business continuity. Requirements have to be assessed and adequate training be provided to ensure a smooth transition into the new system.

During the course of audit it was noticed that :

- During 2011-16, six modifications of VAHAN & SARATHI were carried out by NIC Aizawl no documentation was available to show who had placed the request for change and no acceptance certificate for the changes made was issued by the Department. Additionally, no user manuals/guidelines had been prepared and circulated by the Department.
- Although legacy data in respect of registration of vehicles had been present during the introduction of VAHAN, the backlog entry of data regarding Driving Licences (DL) issued manually prior to implementation of SARATHI had not been done till date and no record or register was maintained by the DTOs to ascertain the volume of backlog data requiring digitisation. It was the practice of the Department to update all legacy data as and when licence holders approached the Department for re-issuance or renewal of their Driving Licences. As a result, the State Register was incomplete even after 16 years of computerization.
- In both the DTOs visited, *i.e.* Aizawl and Lunglei, users were only able to perform data entry operations and lacked the skills necessary even for the troubleshooting and rectification of minor problems like printer errors, updation of antivirus programs, *etc.* This led to inordinate delays in fault resolution as all issues, whether major or minor, were referred to IT Cell or NIC.

While accepting audit observation the Department stated (November 2016) that:

- changes/modifications would be made after obtaining approval from the appropriate authority and documented for inspection.
- instructions had been issued to all concerned to carry out backlog entry of legacy data into SARATHI.
- budgetary allocation for skill development training would be proposed in the next annual plan.

The fact remains that the implementation of computerisation in the Department was executed without proper documentation and planning.

### 3.11.9 Utilisation of module, Correctness and completeness of Data captured by the system

The primary objective of VAHAN and SARATHI was to streamline the previous manual functions of the Department and to establish a centralised database, through the State and National Registers, in which various details related to vehicle registration and driving licences were easily accessible by the Government, its entities and other stakeholders.

During the course of audit it was found that:

- modules for the capture of data on collection of Impounding/Compounding fines and Trade Certificate issuance which were not being used which exposed the system to the risk of misappropriation. The amount of revenue collected manually by various DTOs as per information furnished by the Department for the period 2012-16 is given in the following table.

**Table 3.11.1**

(₹ in lakhs)

DTO	Compounding Fines	Trade Certificate
Aizawl	13.16 <sup>5</sup>	36.41
Lunglei	0.24	1.43
Siaha	1.12	Nil
Serchhip	2.93	0.12
Kolasib	85.71	Nil
Mamit	NA <sup>6</sup>	Nil
Lawngtlai	Information not provided	
Champhai	1.92	0.01
<b>Total</b>	<b>105.08</b>	<b>37.97</b>

- data validation controls embedded in the system were insufficient to ensure that input data was correct, reliable and that only meaningful and useful data was stored in the system. Audit analysis of VAHAN and SARATHI data revealed the following (DTO-wise positions are shown at **Appendix 3.11.1 to 3.11.3**):
  - seating capacity of 460 two wheelers ranging from zero to 911 and 16 LMVs ranging from 14 to 998 were found in the system. Additionally, there were 60 two wheelers having standing capacity ranging from one to 282 and 26 LMV cars having standing capacity ranging from one to 100.
  - 56,975 vehicles had wrong/incorrect/chassis numbers (less than 17 alphanumeric characters), 3,219 vehicles shared the same and similar chassis and engine numbers, 97 vehicles had blank engine numbers and 3,671 vehicles shared duplicate engine numbers.

<sup>5</sup> ₹ 13.16 lakh was collected during 2013-16

<sup>6</sup> Data in respect of Mamit was not furnished to audit.

- (c) 245 cases of mismatch in chassis number, 132 in seating capacity and 111 in vehicle description. Additionally, out of 36,923 vehicular transactions recorded during 2011 to 2016 in Aizawl DTO, 69 newly registered vehicles found in the SMART card module were not found in the vehicle owner module of VAHAN.

The presence of such inaccurate data revealed lack of input and validation controls in the system. Additionally, data inaccuracies made identification of vehicles impossible in case of loss or theft.

While accepting audit observation the Department stated (November 2016) that directions were issued to all DTOs to utilise all modules of VAHAN and SARATHI to achieve full automation of transactions. No reply on DTO, Mamit was received.

The fact remains that all modules which were already available were not being used.

#### **3.11.10 Non-existence/Delayed installation of physical components resulting in delayed service delivery**

Laying down a robust network connecting the various DTOs and provision for power supply for its smooth functioning were critical components for the successful implementation of VAHAN and SARATHI.

Though the Department stated that computerisation was completed in December 2007, audit noticed that there was a delay in establishing network connectivity by eight years in respect of six DTOs. Further, no network connectivity was established till date in respect of DTOs of Champhai and Lawngtlai. As a result, replication of data of these two districts was done at NIC premises twice a month in respect of VAHAN. In respect of SARATHI, even though six DTOs had network connectivity, replication of data to National Register from the local servers was done twice in a month by all the eight DTOs.

It was also observed in audit that the provision of power supply backup by the Department ranged from minimal to none. As cited by the Department (June 2016), one 2 KVA UPS was placed at State server site in Aizawl. However, it was found (August 2016) that the UPS did not provide any power backup when there was a power failure.

The status of network connectivity of the eight DTOs is shown in the following table:

**Table 3.11.2**

Sl. No.	DTO	Year of establishing network connectivity
1	Aizawl	2015
2	Lunglei	2015
3	Siaha	2015
4	Champhai	Not done
5	Kolasib	2015
6	Serchhip	2015
7	Lawngtlai	Not done
8	Mamit	2015

Delay in providing network coverage had led to delay both in updation of data and service delivery to the public in 2,284 cases ranging from 5 days to 3,172 days. The delay on the part of the Department to address these issues has exposed the system to loss of data in the event of a major systems crash occurring in the period between two sequential data replications. The service-wise delay in days compared with the stipulated time is shown in **Appendix 3.11.4**.

While accepting audit observation the Department stated (November 2016) that steps had been taken to create a robust internet connectivity using NICNET through Radio Frequency Wide Area Network and that M/s Nextcomm, an internet service provider (ISP), had been entrusted with exploring the possibility of implementing the same. Survey report of the ISP had not yet been submitted to the Department. The Department further stated (November 2016) that necessary remedial action would be taken to ensure reliable power backup.

The fact remains that the system was being operated without the proper infrastructure for a period of nine years after computerisation had been completed.

### **3.11.11 Reliable, General and Security Controls to ensure Data Security**

#### **3.11.11.1 Lack of controls on physical access and data security**

Physical access control is an integral part of any IT enabled environment as it safeguards the equipment from tampering and minimises the risk of unauthorised access to sensitive data. Usage of anti-virus programmes protect computer systems from malicious software like viruses, trojans, hacker tools, *etc.*

Physical verification of Aizawl and Lunglei DTOs and the IT Cell of the Directorate (May and June 2016) revealed that:

- there was no fire prevention/retarding equipment in place which exposed the equipment to damage by fire. Further, it was also found that the Department did not have any localised protocol for data protection<sup>7</sup>. Critical components such as server rooms, generator/UPS rooms and network components were easily accessible. Lack of physical access controls exposed the system to physical tampering and unauthorised use.
- out of 17 desktop computers in operation, eight computers had anti virus programs installed which exposed the entire network to malicious programs.

While accepting audit observation the Department stated (November 2016) that this was due to lack of managerial effort, insufficient space and inadequacy of staff. The Department further assured that utmost efforts would be made to ensure compliance.

The fact remains that the system was exposed to the risk of data loss from physical damage and malicious software.

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<sup>7</sup> To keep back-up data in a mirror server kept at a different location.

## **LOGICAL ACCESS CONTROL**

### **3.11.11.2 Improper handling of security clearances and lack of stringent logical access controls**

Information system security involves the protection of computerised data from unauthorised modification and are imposed by logical access controls which are restrictions imposed by the computer software for the identification, authorisation and accountability of users.

- As per the provisions of the projects, digitally signed SMART cards are issued individually to each DTO by the State Key Management Authority for the validation and approval of RC/DL applications minimising the risk of fraud by allocating responsibility to the competent authority.

During the inspection of the DTO, Aizawl it was found (May and June 2016) that lower ranking staff were performing functions of the DTO i.e. giving authorization for issuance of DLs and RCs, which was irregular.

Handling of critical high level user privileges by non-authorised staff and/or non-permanent staff exposed the system to the threat of unauthorised usage and data manipulation.

- There was no password policy formulated for the management of IT security in VAHAN thereby exposing the system to risk of unauthorised access and data manipulation. However, under SARATHI, users were required to create passwords using case sensitive alphabetical and special characters which were changed every month. Frequency of change of password could not be verified in audit due to non-capturing/deletion of user log data by the Department.

Further, during visit of two DTOs (Aizawl and Lunglei) it was noticed (May and June 2016) that access to VAHAN and SARATHI server was through a single administrator ID(identity)/password and the same password was used by other users in the absence of the administrator. In this situation, the other users (other than the administrator) could easily alter the system date of VAHAN and SARATHI.

While accepting audit observation the Department stated (November 2016) that the matter would be reported to NIC. It added that giving authorisation to lower ranking staff would be convened with concerned authorities and action taken reported to audit. However, action taken on this matter had not been intimated (January 2017).

The fact remains that security clearances were improperly handled and logical access controls were weak.

### **3.11.11.3 Lack of meaningful user login information and loss of audit trail**

Maintenance of log files and other user related information is critical for the tracing of an audit trail. Log files enable the system administrator to ascertain the details of users who have logged

on to the system and the activities performed. Additionally, log files enable an auditor to check the timeline of tasks that are performed on a system.

Audit scrutiny of tables meant to capture user details such as username, password, login and logoff date and time, *etc.* revealed that the relevant information was not captured by the database and the login/logoff times for all users captured in the data table was shown as 00:00:00 (*hh:mm:ss*). Incomplete data has made it impossible to ascertain the login/logoff time of users. Further, there were no log files to show the various actions performed in each session by a user who had logged on to the system. This has made it impossible for audit to verify that the functions performed in the system were handled by the designated user only.

While accepting audit observation the Department stated (November 2016) that the matter would be taken up with NIC and compliance report submitted to audit. However, action taken on this matter had not been intimated (January 2017).

The fact remains that the audit trail was lost.

#### **3.11.11.4 Unauthorised use of IP address assigned to DTO Lunglei**

Internet protocol (IP) addresses are numbers assigned to computers within a network to identify and allow access to specific users permitted to make use of networks resources.

It was observed in audit (June 2016) that computers placed at DTO Lunglei were unable to access the NIC provided network due to conflict of IP address. It was ascertained that some unknown person(s) had obtained access to the network using DTO's IP address. The NIC officials were unable to identify the unknown user on the day as the unknown person disconnected from the network during the trace.

NIC officials stated (June 2016) that the purpose of using the DTO's IP address was to use the internet facility provided to the DTO Lunglei. However, the fact that persons unknown were able to gain unauthorised access to a secure network thereby making use of Government resources and denying the DTO access to the SARATHI application is a serious threat to data security and integrity.

After the case was analysed, the NIC officials has suggested that the DTO Lunglei have separate switches for VAHAN and SARATHI applications which were sharing a common switch at present to avoid recurrence of IP conflict problems and unauthorised access to the network. No development in this regard has been received from the Department (January 2017).

While accepting audit observation the Department stated (November 2016) that procurement of a separate switch for Lunglei DTO would be taken up immediately in consultation with DIO, NIC Lunglei. However, action taken on this matter had not been intimated (January 2017).

## DATA INTEGRITY AND BACKUP PROTOCOLS

### 3.11.11.5 Compilation error of data captured by VAHAN

Reliability, integrity, correctness and security of data are the primary requirements for the smooth and effective implementation of any IT based data management system.

During the course of Audit, a mock test of DTO, Aizawl records was conducted (July 2016) to ascertain the integrity and correctness of data recorded in the VAHAN cash counter after closure of the daily transactions. Firstly, the day-end report generated by the data entry operator (DEO) of the counter was obtained and it revealed that there were 164 transactions recorded in the VAHAN on 21 July 2016 with a revenue receipt of ₹ 8,31,304. However, after one hour, another day-end report in the presence of Audit party was generated and it was found that there were 162 transactions recorded with revenue receipt of ₹ 8,30,804. Further scrutiny revealed that two transactions bearing receipt numbers BN26900 and BN26925 with revenue receipt amount of ₹ 500 were not reflected in the second report. The reasons as to how and why there was compilation error could not be explained by the DTO.

Compilation errors of data already stored in the database reduces the integrity of the system.

While accepting audit observation the Department stated (November 2016) that the case had been checked and missing receipts had been found.

However, the reply did not indicate the circumstances leading to the compilation error as well how data that had already failed to appear in a system generated report could reappear at a later time.

### 3.11.11.6 Misreporting of fee amounts having 'Fine' component in VAHAN

Reliability, integrity, correctness and security of data are the primary requirements for the smooth and effective implementation of any IT based data management system.

Test check of VAHAN data (October 2016) revealed that in some instances of payment of tax with a fine component, the fine amount is added to the 'Fees' component in addition to being shown as a separate amount in the 'Fine' component. (Such instances are given at **Appendix 3.11.5**) Some illustrative examples are given in the following table.

**Table - 3.11.3**

(Figures in ₹)

Receipt No.	VAHAN		System generated receipt	
	Fees	Fine	Fees	Fine
BA97060	1,688	188	1,500	188
BN19625	3,937	437	3,500	437
BA97023	3,500	1,000	2,500	1,000
BN19081	1,688	188	1,500	188

While accepting audit observation in the Exit Conference the Department stated (November 2016) that the matter would be checked and results intimated to audit. However, action taken on this matter had not been intimated (January 2017).

### 3.11.11.7 Inadequacy of data redundancy measures at the State level

Data redundancy or backup measures are a critical component of any database management system to ensure the continuity of service delivery.

During the course of audit, it was found that no provisions for data redundancy were being maintained by the Department. All data under VAHAN is stored either in the local servers placed in individual DTOs offices in respect of SARATHI and directly in the National Register managed by NIC, Delhi in respect of VAHAN. This may lead to delay in service delivery and even loss of data in the event of network breakdown, power outage and other disastrous events.

Further, it was also noticed (July 2016) that two servers (DTO Mamit and Serchhip) crashed and were under repair by the Performance Cell, Aizawl. This resulted in delays in service delivery as there was no provision of a backup/mirror server *in situ*. The details of server breakdown and its repair in these two DTOs are as given in the following table.

**Table - 3.11.4**

Sl. No.	DTO	Date of server breakdown	Date of repair/correction	Days required for repair/ Delay in providing service
1	Serchhip	30-10-2014	31-10-2014	1
2	Serchhip	6-2-2015	9-2-2015	3
3	Mamit	9-2-2015	10-2-2015	1
4	Mamit	5-10-2015	6-10-2015	1
5	Serchhip	1-4-2016	6-4-2016	5
6	Mamit	14-7-2016	2-8-2016	19
7	Serchhip	28-7-2016	3-8-2016	6

Thus, there was a delay of 1 to 19 days in providing service delivery during 30 October 2014 to 3 August 2016. Lack of localised redundancies has hampered the efficiency of the project and led to delay in service delivery to the public.

While accepting audit observation the Department stated (November 2016) that necessary instructions would be issued to all DTOs to take daily backups of data.

## MAPPING OF BUSINESS RULES

### 3.11.11.8 Non-mapping of Business rules

IT applications should incorporate business rules which apply to the field in which they are applied and have in-built controls which automatically check whether the data entered is

accurate and valid by incorporating computerised validation checks on the data presented to the system. Various discrepancies and errors in the system due to lack of validation checks in the software were observed in Audit. Instances of such incorrect and unusual data are discussed in the following pages:

- **Non-linkage of applicant address with the issuing authority:** Out of 72,738 vehicles registered within the State during 2011-16, the temporary and permanent address of 1,425 vehicle owners were outside the jurisdiction of the registering DTO, 689 vehicle owners were outside the State of Mizoram and 132 vehicles owners could not be ascertained due to non-filling up of the district code. Thus, a total of 2,114<sup>8</sup> vehicles were registered in violation of the provision of the Act.
- **Usage of non-prescribed district code:** The eight districts of Mizoram were given the code name as TR, TR1 to TR7 to be used in VAHAN. However, it was noticed that all DTOs were using their own codes instead of following the prescribed format as shown in **Appendix 3.11.6**.
- **Non-linkage of State and District specific registration codes:** Audit analysis of VAHAN data also revealed that the software did not automatically generate the letters ‘MZ’ assigned to the State and required the user to input the same. During the period between April 2011 and March 2016, 22 vehicles were assigned incorrect registration numbers such as AA, SH, AZ, ML, MO4 and LT.9,694 vehicles were registered with district code different to those prescribed by the system. Usage of non-prescribed codes defeats the very purpose of having a standardised pattern for identification of vehicles which may result in serious security breach. Incorrect registration marks were wrongly assigned to registered vehicles thereby rendering the State and National Registers incorrect.
- 12 Driving Licenses (DL) and 38 Learner’s Driving License (LDL) were issued to a person less than 18 years of age.
- 13 LDLs and 46 DLs were issued on Saturday and Sunday respectively
- 23,118 cases of unknown blood group written as ‘U’ in DL and 22,830 cases in LDL in eight DTOs, and 119 cases blood group column was left ‘blank’ in DL without any specification in six DTOs as shown in the following table.

**Table -3.11.5**

DTO	Learners Driving Licence			Permanent Driving Licence		
	Unknown Blood group written as ‘U’	Blank	Total	Unknown Blood group written as ‘U’	Blank	Total
Aizawl	12,686	Nil	12,686	8,691	67	8,758
Lunglei	3,345	Nil	3,345	2,791	22	2,813
Siaha	415	Nil	415	2,396	13	2,409
Champhai	1,653	Nil	1,653	1,797	2	1,799

<sup>8</sup> 1,425 + 689 = 2,114

DTO	Learners Driving Licence			Permanent Driving Licence		
	Unknown Blood group written as 'U'	Blank	Total	Unknown Blood group written as 'U'	Blank	Total
Kolasib	2,190	Nil	2,190	2,906	14	2,920
Serchhip	1,850	Nil	1,850	3,860	1	3,861
Lawngtlai	437	Nil	437	362	Nil	362
Mamit	254	NIL	254	315	Nil	315
<b>Total</b>	<b>22,830</b>	<b>NIL</b>	<b>22,830</b>	<b>23,118</b>	<b>119</b>	<b>23,237</b>

- 91 vehicles were registered on Saturday and 41 vehicles were registered on Sunday as shown in the following table.

Table - 3.11.6

Name of District	No. of Vehicles registered	
	On Saturday	On Sunday
Aizawl	33	31
Lunglei	08	NIL
Siaha	NIL	01
Champhai	25	05
Kolasib	06	01
Serchhip	03	NIL
Lawngtlai	02	03
Mamit	14	NIL
<b>Total</b>	<b>91</b>	<b>41</b>

- Out of 237 NOCs cancelled, details of 228 vehicles were not reverted back to the list of registered vehicles in the owner database of VAHAN.
- Out of 72,738 vehicles registered during the period. Data entry of certain key fields was not done at the time of registration as these were not mandatory fields. The incomplete key fields noticed during analysis are shown in the following table.

Table – 3.11.7

Particulars	Total vehicles registered with incomplete field during 2011-16
Unladen weight left blank	98
Laden weight left blank	2,734
Father's name blank	22
Engine number not mentioned	22
Address not mentioned	22

While accepting audit observation the Department stated (November 2016) that the possibility of addressing the issues raised by audit would be explored in consultation with NIC and intimated to audit.

The fact remains that business rules were not mapped into the software to ensure compliance with the provisions of the Central MV Rules and Act.

### 3.11.11.9 Incorrect/Non-realisation of Registration Fee

As per Rule 47 of the Central Motor Vehicles Rules 1989, an application for registration of a motor vehicle shall be made in Form 20 to the registering authority within a period of seven days from the date of taking delivery of such vehicle. If the owner fails to make an application within the prescribed time, the registering authority is required to levy an amount not exceeding ₹ 100 under Section 41 (11) of the Central Motor Vehicles Act, 1988. The rate of late registration fine collected by the State Department is ₹ 100 per vehicle.

Audit analysis of vehicle owner's data and late registration fee modules relating to the period between April 2011 and March 2016 revealed that:

- in 3,067 cases, the Department levied and realised ₹ 3.07 lakh @ ₹ 100 per vehicle even though registration of the vehicles was done within seven days of the purchase date. This has resulted in incorrect levy of late registration amounting to ₹ 3.07 lakh.
- in 7,142 cases, there was non-levy of late registration fine even though the vehicles were registered 8 to 4,052 days after purchase. Due to non-levy of late registration fine, there was loss of revenue amounting to ₹ 7.14 lakh.

The district-wise details of incorrect levy/non-levy of late registration fine are shown in the following table.

**Table - 3.11.8**

DTO	Rate of fine (₹)	Incorrect realisation of late registration fee		Non-realisation of late registration fee	
		Number of vehicles	Amount realised (₹)	Number of vehicles	Amount realisable (₹)
Aizawl	100	2,522	2,52,200	2,762	2,76,200
Lunglei	100	328	32,800	343	34,300
Siaha	100	73	7,300	191	19,100
Champhai	100	Nil	-	866	86,600
Kolasib	100	Nil	-	2,583	2,58,300
Serchhip	100	47	4,700	10	1,000
Lawngtlai	100	87	8,700	306	30,600
Mamit	100	10	1,000	81	8,100
<b>Total</b>		<b>3,067</b>	<b>3,06,700</b>	<b>7,142</b>	<b>7,14,200</b>

Collection/Non-realisation of revenue as shown above is against the provisions of the Act stated *ibid*. Therefore, the system needs to be designed to deny addition of penalty when registration

is done within the stipulated period or prompt for payment of penalty and only allow further transactions after the penalty amount is cleared.

While accepting audit observation the Department stated (November 2016) that concerned DTOs had been instructed to rectify the errors and that compliance reports for the same were awaited. Further, it was added that NIC would be consulted in the matter and the issue would be closely monitored.

#### **3.11.11.10 Incomplete data of stolen vehicles**

As per Section 62 of the MV Act, the State Government may, if it thinks necessary, direct the Police Department to furnish returns regarding vehicles which have been stolen and stolen vehicles which have been recovered to the Department.

Audit analysis of data revealed that during the last five calendar years 2011 to 2015, information of 45 theft cases was captured in the system of Aizawl and Kolasib DTOs and there were no theft reports in respect of the remaining six DTOs during this period. Further, as per statistics of the Police Department, during the year 2011-15, 198 vehicles were stolen across the State of Mizoram and 194 were recovered. Failure to obtain returns from the Police Department has resulted in DTOs having no information about 153 (198 – 45) stolen vehicles.

While accepting audit observation the Department stated (November 2016) that the matter would be brought to the notice of the Government as policy intervention would be required.

However, the fact remains that the Department did not have any system in place to ensure coordination with the State Police to fully utilise the data of vehicles stolen in the state.

#### **3.11.11.11 Need for revision of Form – 2 & 4**

The SARATHI software contains provision to capture information of the applicants such as mobile phone numbers, email address, *etc.* in learner driving licence (LDL) and driving licence (DL). However, the prescribed application forms (Form - 2 LDL & 4 DL) for a driving licence do not contain any columns for capturing of mobile number and e-mail address information from the applicants.

As a result, complete details of applicants had not been captured by the system thereby creating a database which did not have all details permissible by the system and thereby reducing the utility of computerisation.

While accepting audit observation the Department stated (November 2016) that the Central Government through MoRTH was revising all forms prescribed in the Central MV Act, 1989 for ease of business and ensure compliance with the same when modified.

#### **3.11.12 Conclusion**

The Performance Audit revealed a number of deficiencies in implementation of the project of computerisation in the Department. Secured environment for IT system (VAHAN and

SARATHI) were not put in place and changes/modifications to the software were made without any documentation. The log files generated by the system were deleted without conducting any analysis leading to loss of audit trail. The software had designed deficiencies thereby enabling non-realisation of late registration fee and incorrect collection on account of late registration fee for delayed registration. The Performance Audit also highlights abnormal delay in service delivery like issue of duplicate and renewal Driving License; lack of inter-connectivity/common database and system deficiencies leading to delay in updating of database to State and National Register, entry of duplicate chassis and engine numbers including blank engine numbers and non-meaningful registration numbers. Thus, the existing data was not reliable. In addition, there is no plan for providing inter-connectivity with the DTOs of Champhai and Lawngtlai.

In the absence of a clear IT strategy, execution and monitoring, the Department could not fully achieve its stated objectives of bringing transparency to the system, easing and speeding up work related to vehicle registration and issue of driving licences.

### **3.11.13 Recommendations**

It is recommended that the Department may consider to:

- take immediate action to provide network connectivity to all DTOs and ascertain and update all legacy/backlog data under SARATHI;
- institute a formal procedure for change/modification in the software and ensure that all changes are properly documented;
- ensure complete utilisation of all software modules with a special emphasis on skill development training for core user staff;
- ensure physical safety of installed equipment and develop infrastructure to supply power for continuous service delivery ; and,
- strengthen logical access control by enforcing protocols in regard to access of data and install data validation as well as input controls to avoid capturing unreliable data.

## COMPLIANCE AUDIT PARAGRAPHS

### TAXATION DEPARTMENT

#### 3.12 Evasion of tax

**There was an under-assessment of tax of ₹ 5.21 lakh due to non-detection of turnover worth ₹ 214.11 lakh.**

Section 31(6)(b) of the Mizoram Value Added Tax (MVAT) Act, 2005 provides that if any dealer has furnished incomplete and incorrect returns for any period, the Commissioner shall assess to the best of his judgement the amount of tax due from such dealer. Further, if the Commissioner is satisfied that the dealer, in order to evade or avoid payment of tax, has furnished incomplete and incorrect returns for any period, the dealer is liable to pay by way of penalty, a sum not exceeding twice the amount of tax assessed under Section 31(7)(b).

Test check (October 2014) of the records of the Office of the Assistant Commissioners of Taxes (ACT), North Zone, Aizawl revealed that a drugs and medicines dealer<sup>9</sup> [who furnished in the return gross turnover of ₹ 12.27 lakh (2011-12) and ₹ 17.14 lakh (2012-13)] was assessed (July 2013) submitted the return with the gross turnover of ₹ 72.04 lakh and ₹ 176.65 lakh for 2011-12 and 2012-13 respectively.

The assessment was made by the Assessing Officer (AO) by adding three *per cent* as profit margin and 60 *per cent* of total stock as sales and allowing the remaining 40 *per cent* as closing stock at the end of each respective financial year as detailed in the following table:

**Table – 3.12.1**

(₹ in lakh)				
Sl. No.	Particulars	2011-12	2012-13	Total
1.	Gross turnover declared by the dealer	12.27	17.14	29.41
2.	Opening stock (including 3 <i>per cent</i> profit element)	16.58	48.02	64.60
3.	Purchase (including 3 <i>per cent</i> profit element)	103.48	141.46	244.94
4.	Total stock (including 3 <i>per cent</i> profit element)	120.06	189.48	309.54
5.	Gross sales turnover determined (60 <i>per cent</i> of total Stock)	72.04	176.65	248.69
6.	Closing stock (including 3 <i>per cent</i> profit element)	48.02	12.83	60.85
7.	Tax rate	4 <i>per cent</i> / 5 <i>per cent</i>	5 <i>per cent</i>	--
8.	Tax payable	3.06	8.83	<b>11.89</b>
9.	Tax already paid during 2011-13		<b>1.64</b>	
10.	Balance Tax		<b>10.25</b>	

Source: Departmental records

<sup>9</sup> M/s Rebecca Drug Centre TIN 15111864012

It can be seen from the above table that the dealer's gross turnover during two years (2011-13) excluding 3 per cent profit was assessed as ₹ 241.23 lakh (₹ 248.69 lakh minus 3 per cent profit of ₹ 7.46 lakh). However, cross verification of the dealer's C-Form Register for the years 2011-13, duly authenticated by the Inspector of Taxes, disclosed that the dealer's actual taxable gross turnover of purchase (excluding profit) during 2011-13 was ₹ 455.64 lakh (excluding damaged/expired value of medicines of ₹ 11.10 lakh), which resulted in escape of purchase turnover of ₹ 214.11 lakh (₹ 455.64 lakh minus ₹ 241.23 lakh) leading to short levy of tax.

Thus, taking into consideration the dealer's actual purchase turnover and applying the same method adopted by the AO for determination of sales turnover and closing stock, the dealer was to be assessed as shown in the following table:

**Table – 3.12.2**

(₹ in lakh)

Sl. No.	Particulars	2011-12		2012-13	Total
1.	Opening stock (including 3 per cent profit element)	16.58	50.58	58.54	125.70
2.	Purchase	106.68	92.97	255.99	455.64
	Add: 3 per cent profit element	3.20	2.79	7.68	13.67
	<b>Total</b>	109.88	95.76	263.67 <sup>10</sup>	469.31
3.	Total stock (including 3 per cent profit element)	126.46	146.34	322.21	595.01
4.	Gross sales turnover determined (60 per cent of total Stock)	75.88	87.80	193.33	357.01
5.	Closing stock (including 3 per cent profit element)	50.58	58.54	128.88	238.00
6.	Tax rate	4 per cent (upto December 2011)	5 per cent (from January 2012) <sup>11</sup>	5 per cent	
7.	Tax payable	3.04	4.39	9.67	<b>17.10</b>
8.	Tax already paid during 2011-13	<b>1.64</b>			
9.	Penalty under Section 31(7)(b)	<b>34.20</b>			
10.	Balance Tax	<b>15.46</b>			
11.	Balance Tax including penalty	<b>49.66</b>			

Source: Departmental records

It can be seen from the above table that as per the actual purchase made by the dealer, the dealer was required to pay a tax of ₹ 17.10 lakh during 2011-13 against the levied tax of ₹ 11.89 lakh, which resulted in short levy of tax of ₹ 5.21 lakh (₹ 17.10 lakh minus ₹ 11.89 lakh).

<sup>10</sup> Excluding damaged/expired value of medicines of ₹ 11.10 lakh

<sup>11</sup> The rate of value added tax of medicine was increased from four per cent to five per cent with effect from 01 January 2012

As the dealer had already deposited a tax of ₹ 1.64 lakh against the leviable tax of ₹ 17.10 lakh, the balance tax of ₹ 15.46 lakh over and above the maximum penalty of ₹ 34.20 lakh was leviable for furnishing incorrect returns.

In reply, the Government stated (August 2016) that the re-assessment had been done with a payable tax of ₹ 16.56 lakh and Notice of Demand had been served to the dealer to pay settle the payment of ₹ 4.35 lakh by 23 August 2016.

The re-assessment order passed by the AO could not be accepted in Audit as the AO reassessed the tax payable by the dealer as ₹ 16.56 lakh instead of ₹ 17.10 lakh as determined by audit. Further, no penalty was imposed on evasion of tax. Report on recovery of ₹ 4.35 lakh is awaited (February 2017).

### 3.13 Non-levy of penalty

#### **Penalty of ₹ 37.56 lakh from 56 dealers, who failed to submit Audited Statement, was not imposed by the Assessing Officers of two zonal offices.**

As per Section 53 of the Mizoram Value Added Tax Act (MVAT), 2005 all dealers whose taxable turnover exceeds ₹ 30 lakh in a particular year are liable to get their accounts audited by Chartered Accountants, the true copy of which is to be furnished to the taxation authority within six months from the end of the year. If any dealer fails to get his accounts audited, the Commissioner shall, after giving the dealer a reasonable opportunity of being heard, impose on him, in addition to any tax payable, a sum by way of penalty equal to 0.1 *per cent* of the turnover as he may determine to the best of his judgment in respect of the said period. The Department had no mechanism in place to detect dealers who failed to get their accounts audited by Chartered Accountant.

Audit of the records (October 2014 and October to December 2015) of two Assistant Commissioners of Taxes (ACTs) revealed that 56<sup>12</sup> dealers failed to get their accounts audited by Chartered Accountants for onward submission to the respective taxation authorities in spite of the fact that all of them had an annual turnover of ₹ 30 lakh as per the Assessment Orders/turnover return/tax audit for the year 2008-2014. However, the Assessing Officers (AOs) failed to impose on them, in addition to tax payable, a sum of ₹ 37.56 lakh by way of penalty on turnover of ₹ 37,557.08 lakh determined by the AOs. The details of dealer-wise turnovers, penalty payable by 56 dealers and latest position regarding recovery of penalty are shown in **Appendix - 3.13.1**.

The Government stated (November 2016) that:

- Demand notices were issued to all 31 dealers under ACT, Aizawl North Zone in October 2016 and progress of the notice would be intimated to Audit;
- Under ACT, Aizawl Central Zone, ₹ 2.11 lakh had already been realised from 11 dealers and seven dealers submitted their audited statements after being pointed out by audit.

<sup>12</sup> ACT, North Zone, Aizawl : 31 dealers *plus* ACT, Central Zone, Aizawl : 25 = 56 dealers

Out of the remaining seven dealers, five dealers were inactive, one dealer's registration was cancelled in April 2014 and there was no progress in respect of one dealer after a notice to submit audited accounts was issued.

It is apparent from the reply that the Department had not levied penalty on 7 dealers who submitted the audited accounts. However, the penalty was leviable as the audited accounts were submitted after expiry of six months from the end of the month relating to the financial year.

Thus, there was no mechanism in place to detect and initiate action to levy penalty on dealers who failed to get their accounts audited by Chartered Accountants.

## LAND REVENUE AND SETTLEMENT DEPARTMENT

### 3.14 Irregular expenditure

**Under National Land Records Modernisation Programme, the Director, Land Revenue & Settlement Department incurred an irregular expenditure of ₹ 2.02 crore without supporting vouchers.**

The Government of India, Department of Land Revenues, Ministry of Rural Development had taken steps to implement a Centrally Sponsored Scheme (CSS) in the shape of the National Land Records Modernisation Programme (NLRMP) by merging two CSS of Computerisation of Land Records (CLR) and Strengthening of Revenue Administration and Updating of Land Records (SRA&ULR). The integrated programme would modernize management of land records, minimise scope of land/property disputes, enhance transparency in the land records maintenance system and facilitate eventual migration towards guaranteed conclusive titles to immovable properties in the Country.

Under the NLRMP, the GoI released a central assistance of ₹ 8.87 crore<sup>13</sup> to the State Government for implementation of the scheme in three Districts during 2011-14. The State Government had submitted (January 2013 – June 2015) the Utilisation Certificates (UCs) for expenditure of ₹ 8.87 crore to the Ministry towards Minor works (₹ 1.44 crore), Machinery and Equipment (₹ 1.82 crore) and Survey works (₹ 5.61 crore).

Scrutiny (March 2016) of the records of the Office of the Director, Land Revenue & Settlement Department (LR&SD) Mizoram revealed that out of the central assistance of ₹ 8.87 crore, ₹ 2.02 crore was stated to have been spent by the Director, LR&SD during October 2013 to March 2015 towards implementation of NLRMP in three Districts without any supporting vouchers. The details of ₹ 2.02 crore spent by the Department without supporting documents are given in the **Appendix – 3.14.1**.

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<sup>13</sup> Lunglei district (28 March 2012) - ₹ 2.26 crore, Aizawl and Champhai Districts (19 September 2013) - ₹ 1.90 crore and Aizawl and Champhai Districts (31 March 2013) - ₹ 4.71 crore

As ₹ 2.02 crore was spent without supporting detailed vouchers the actual utilisation of the fund along with its physical achievement made under the programme could not be ascertained in audit. Further, in absence of the details of the expenditure, the veracity of UCs submitted to the Ministry could not be ascertained in audit.

In reply, the Department forwarded (January 2017) copies of the Muster Roll (MR) bills and Actual Pay Receipts for vehicle hiring charges, honorarium for training and miscellaneous expenses in support of the total expenditure of ₹ 2.02 crore.

On scrutiny of these documents, it was noticed that:

- MR bills did not contain daily attendance of MRs along with the type and quantity of work executed and actual date of commencing and finishing of the work;
- Actual Pay Receipts of honorarium for training expenses did not include the approved training programme, venue and date of training, number of trainees present and duration of training. Further, no record was produced in support of expenditure incurred for training materials, trainees TA/DA;
- Actual Pay Receipts for vehicle hiring charges did not include the details of the travel, person who travelled and distance covered and approved travel plan; and
- Actual Pay Receipts of miscellaneous expenses incurred for cook hiring charges, water charges, house rent, electric charges, medicine/first aid etc. were not supported by the details of such expenditure viz. officials for whom house rent was paid, details of premises for which electric and water charges were paid and details of the officials for whom medical expenses were incurred.

In the absence of documentary evidence in support of the expenditure, the actual utilisation of fund of ₹ 2.02 crore could not be vouchsafed in audit and as such there is a high risk of misappropriation/misuse of public money.

## **GEOLOGY AND MINERAL RESOURCES DEPARTMENT**

### **3.15 Non-levy of penalty**

#### **Penalty of ₹ 57.46 lakh for non-submission of monthly returns was not realized from 26 stone quarry permit holders.**

As per Rule 43(3) read with Rule 45 (2) of the Mizoram Minor Minerals Concession Rules, 2000 every lease or permit holder is required to submit every month to the Competent Authority or his authorised agent a true and correct return for minor minerals in Form-H by the fifteenth day of the following month to which it relates. If any lease or permit holder fails to file the return within the prescribed period, he shall be liable to pay as penalty a sum of rupees twenty for every day after expiry of the prescribed date during the period the lessee or permit holder fails to furnish the required return.

Test check (April 2015) of the records of the Directorate of Geology and Mineral Resources, Mizoram, Aizawl revealed that 26 stone quarry permit holders failed regularly to furnish monthly returns in Form-H during the period between April 2012 and March 2015 as required by the rule stated *ibid*. The Department also did not initiate any action to levy and realise the penalty against the defaulting permit holders resulting in non-levy of penalty of ₹ 35.02 lakh. Details of non-levy of penalty are shown in **Appendix – 3.15.1**.

While accepting the facts the Director, Geology and Mineral Resources, Mizoram, Aizawl stated (July 2015) that notices to pay penalty of ₹ 34.98 lakh had been issued to all 26 permit holders based on the audit observations.

It was further observed that the penalty amount for which notices were issued, were not updated taking into consideration the date of issue of the notices/ filing of return. The Department needs to take stringent action to revise penalty amount wherever requires and recover the same from the permit holders.

On this being pointed out, the Government stated (August 2016) that orders were issued to the 26 stone quarry permit holders to pay penalty of ₹ 57.46 lakh. The Government further stated (February 2017) that out of the 26 quarry owners, two had cleared their dues, one had expired and in 23 remaining cases Government was actively pursuing the cases to settle the pending issues.

### **3.16 Non-levy of penal rate of annual license fee**

#### **Annual license fee at penal rate of ₹ 60.43 lakh was not levied on delayed payment of annual license fee on two license holders.**

Agreement Deeds were signed between Government of Mizoram and (i) Oil India Limited (OIL) (May 2007), and (ii) Oil and Natural Gas Corporation Limited (ONGC) (September 2003) respectively for petroleum exploration licenses. As per clause (1) and (3) of Part – II of the agreements, the licensees were required to pay in advance an annual license fee at the rates and time specified in the Deeds. Failing this, the fee payable would be increased by a penal rate of 200 basis points over the prime lending rate of State Bank of India for the period of delay. Further, the State Government with the prior approval of the Central Government may cancel the license if any license fee, royalty and other payment due in respect of the license is in arrear for more than three months.

Test check of the records (April 2015) of the Director, Geology and Mineral Resources, Mizoram, Aizawl revealed that the two licensees<sup>14</sup> for petroleum exploration delayed payment of the annual license fee by 135 to 532 days. Despite the delay in payment of annual license fees no penal rate was imposed on the licensees. The details of payment of license fee is shown in the following table.

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<sup>14</sup> (i) Oil India Limited and (ii) Oil and Natural Gas Corporation Limited

Table - 3.16.1

(₹ in lakh)

Sl. No.	Working period/year	Name of licensee	Annual license fee	Due date on or before	Date of payment	Number of days delayed	SBI prime lending rate per annum + 200 basis point ( <i>per cent</i> )	Penal amount leviable
1.	29-7-2010 to 28-7-2011 for the 8 <sup>th</sup> year contract	ONGC	160.20	28-7-2010	26-2-2011	212	11.75 + 2 = 13.75	12.79
2.	22-5-2011 to 21-5-2012 for the 5 <sup>th</sup> year contract	OIL.	128.52	21-5-2011	5-11-2012	532	14.00 + 2 = 16.00	29.97
3.	22-5-2012 to 21-5-2013 for the 6 <sup>th</sup> year	OIL.	128.52	21-5-2012	5-11-2012	167	14.75 + 2 = 16.75	9.85
4.	22-5-2013 to 21-5-2014 for the 7 <sup>th</sup> year	OIL.	128.52	21-5-2013	4-10-2013	135	14.45 + 2 = 16.45	7.82
<b>Total</b>								<b>60.43</b>

Source: Departmental records

Thus, due to inaction on the part of the Department, penal rate of license fee of ₹ 60.43 lakh was not levied to the licensees.

While accepting the facts the Director, Geology and Mineral Resources, Mizoram, Aizawl stated (June 2016) that two notices had been issued to the two licensees. As the licensees failed to reply to any of the notices, the matter had been conveyed (February 2016) to the Government for direction and instruction.

The Government stated (February 2017) that efforts had been made to recover the liabilities. However, as stated by ONGC and OIL the delay was mainly due to the time taken by the Ministry of Petroleum and Natural Gas, GoI to extend the license period.

The fact remains that the licensees had not surrendered or relinquished the blocks allotted to them.

