

**CHAPTER– IV**  
**REVENUE SECTOR**



## CHAPTER-IV: REVENUE SECTOR

### 4.1 Introduction

#### 4.1.1 Trend of Revenue Receipts

Tax and Non-tax revenue raised by Government of Arunachal Pradesh during 2015-16, the State share of net proceeds of divisible Union taxes and duties assigned to the State, Grants-in-aid received from Government of India (GoI) during the year and corresponding figures for the preceding four years are shown in table below:

**Table – 4.1.1: Trend of Revenue receipts**

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue raised by the State Government						
1.	• Tax revenue	317.65	316.50	434.51	462.16	535.07
	• Non-tax revenue	360.71	284.22	405.06	457.64	392.12
<b>Total</b>		<b>678.36</b>	<b>600.72</b>	<b>839.57</b>	<b>919.80</b>	<b>927.19</b>
Receipts from the Government of India						
2.	• Share of net proceeds of divisible Union taxes and duties	838.97	957.93	1045.85	1109.98	7075.58
	• Grants-in-aid	3981.73	4202.87	3935.01	7106.27	2550.33
<b>Total</b>		<b>4820.70</b>	<b>5160.80</b>	<b>4980.86</b>	<b>8216.25</b>	<b>9625.91</b>
3.	Total revenue receipts of the State Government (1 +2)	5499.06	5761.52	5820.43	9136.05	10553.10
4.	<b>Percentage of 1 to3</b>	<b>12.34</b>	<b>10.43</b>	<b>14.42</b>	<b>10.06</b>	<b>8.79</b>

The above Table shows that during 2015-16, Revenue raised by State Government (₹ 927.19 crore) was 8.79 per cent of the total Revenue receipts. The balance 91.21 per cent of receipts during 2015-16 was from GoI.

Details of Tax revenue raised against Budget Estimate (BE) during 2011-16 are given in the following table:

**Table- 4.1.2: Details of Tax revenue raised**

(₹ in crore)

Head of Revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage Increase (+)/ Decrease (-) in 2014-15 over 2013-14	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Land Revenue	6.05	3.85	6.66	4.70	5.16	11.39	6.21	5.99	5.64	8.89	(-)9.18	(+)48.41
Stamp Duty	2.27	2.24	2.50	3.05	2.73	4.18	4.03	3.83	5.28	5.63	(+)31.02	(+)46.99
State Excise	28.78	37.63	32.00	49.11	56.70	55.50	68.74	59.87	66.70	86.33	(-)2.97	(+)44.20
Taxes on Sales, Trade, etc	173.46	216.36	226.55	161.62	321.80	223.60	338.03	195.24	178.10	190.22	(-)47.31	(-)2.57
Motor vehicle Tax	17.00	12.41	18.00	13.38	15.64	17.09	17.99	17.78	18.14	16.30	(+)0.83	(-)8.32
Taxes on goods and passengers	0.00	45.16	0.00	84.64	0.00	122.75	111.94	179.45	233.78	224.70	(+)108.84	(+)25.22
<b>Total</b>	<b>227.56</b>	<b>317.65</b>	<b>285.71</b>	<b>316.50</b>	<b>402.03</b>	<b>434.51</b>	<b>546.94</b>	<b>462.16</b>	<b>507.64</b>	<b>535.07</b>	(-)7.19	(+)15.78

The Departments despite being requested (November 2016) did not furnish the reasons for variations in receipts from BE and actual revenue of the previous year (February 2017).

Details of Non-tax revenue raised against Budget estimate during 2011-12 to 2015-16 are shown in the following table:

**Table-4.1.3: Details of Non-tax revenue raised**

*(₹ in crore)*

Head of Revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage increase(+)/ Decrease (-) in 2014-15 over 2013-14	
	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual
Power	95.00	145.04	200.67	113.07	110.03	145.41	289.48	182.63	184.17	117.04	(-)36.38	(-)35.91
Interest Receipts	50.00	48.71	55.00	40.32	58.93	24.66	67.77	13.12	31.61	39.11	(-)53.36	(+)198.09
Forestry & Wild Life	15.40	36.76	15.40	7.49	28.98	11.89	55.90	9.28	8.29	13.76	(-)85.17	(+)48.28
Public works	7.34	9.00	4.00	16.17	11.90	29.83	21.39	19.98	23.52	7.35	(+)9.96	(-)63.21
Miscellaneous General Services	2.00	0.10	15.00	0.02	0.12	0.01	0.03	0.01	0.04	54.39	(+)33.33	(+)54.38
Other Administrative Service	6.44	6.69	7.08	7.58	8.09	8.57	10.02	8.29	10.65	9.52	(+)6.29	(+)14.84
Police	2.75	2.82	3.60	2.32	3.41	3.09	3.06	1.29	1.30	9.34	(-)57.52	(+)624.03
Medical & Public Health	0.51	0.43	0.51	0.49	0.50	0.71	0.67	0.71	0.81	0.61	(+)20.90	(-)14.08
Co-operation	1.32	0.77	1.45	0.24	0.93	0.48	0.31	0.57	0.67	0.58	(+)116.13	(+)1.75
Other Non-Tax Receipts	109.61	35.44	118.46	42.27	93.89	180.41	581.16	221.76	460.75	140.42	(-)20.72	(-)36.68
<b>Total</b>	<b>290.37</b>	<b>360.71</b>	<b>421.17</b>	<b>284.22</b>	<b>316.78</b>	<b>405.06</b>	<b>1029.79</b>	<b>457.64</b>	<b>721.81</b>	<b>392.12</b>	<b>(-)29.91</b>	<b>(-)14.32</b>

The Departments despite being requested (November 2016) did not furnish the reasons for variations in receipts from that of the BE and actuals of previous year (February 2017).

#### **4.1.2 Analysis of revenue arrears**

The information on total amount of arrears of revenue as well as amount outstanding for more than five years as on 31 March 2016 was not furnished by the Department/ Government (February 2017).

#### **4.1.3 Arrears in Assessments**

Details of cases pending at the beginning of the year, cases due for assessment, cases disposed of during the year and number of cases pending 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 had not been furnished despite request made to the concerned Departments (February 2017).

**4.1.4 Evasion of tax detected by the Department**

No information in respect of evasion of tax detected was furnished by the Tax and Excise Department (February 2017).

**4.1.5 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 cases pending at the close of the year (2015-16), have not been furnished by the Taxation Department (February 2017).

**4.1.6 Response of the Government/Departments towards Audit**

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

Inspection reports issued upto December 2016 disclosed that 1093 paragraphs involving ₹ 4602.22 crore relating to 324 IRs remained outstanding at the end of June 2016 along with corresponding figures for the preceding two years. The details are shown in the table below:

**Table- 4.1.4: Details of pending Inspection Reports**

	June 2014	June 2015	June 2016
Number of IRs pending settlement	229	299	324
Number of outstanding Audit Observations	629	974	1093
Total amount involved (₹ in crore)	<b>357.29</b>	<b>4180.79</b>	<b>4602.22</b>

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

**Table- 4.1.5: Department-wise details of IRs***(₹ in crore)*

Sl.No.	Department	Nature of receipts	No of outstanding		Money value involved
			IRs	Audit Observations	
1	Sales Tax	Taxes on Sales, Trade etc	87	376	136.91
2	Excise	State Excise	53	161	4.92
3	Revenue	Land Revenue	33	138	3886.34
4	Transport	Taxes on Motor Vehicles	41	116	16.95
5	State Lottery	Lottery	6	17	6.36
6	Geology & Mining	Non-ferrous Mining &	15	31	32.40

Sl.No.	Department	Nature of receipts	No of outstanding		Money
		Metallurgical Industries			
7	Environment & Forest & Wildlife	Forestry & Wild Life	89	254	518.34
<b>Total</b>			<b>324</b>	<b>1093</b>	<b>4602.22</b>

Audit did not receive first replies within one month from the date of issue of IRs from 13 Heads of Offices for 13 IRs issued during 2015-16. This large pendency of IRs due to non-receipt of replies indicated that Heads of Offices and Departments did not initiate action to rectify defects, omissions and irregularities pointed out in the IRs.

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

#### **4.1.7 Departmental Audit Committee Meetings**

The Government set up Audit Committees to monitor and expedite the progress of settlement of the IRs and Paragraphs in the IRs. However, no departmental Audit Committee meeting was held during 2015-16. As can be seen from Para 4.1.6 there is large pendency of IRs. In view of this, the Government may ensure holding of Audit Committee meetings to expedite clearance and settlement of outstanding audit observations.

#### **4.1.8 Response of Departments to Draft Audit Paragraphs**

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

Ten paragraphs proposed to be included in the Audit Report of the Comptroller and Auditor General of India for the year ended 31 March 2016 were sent to the Principal Secretaries/Secretaries of respective Departments between June and July 2016. The Principal Secretaries/Secretaries of the Government did not furnish replies to nine of the paragraphs (February 2017).

#### **4.1.9 Follow-up on Audit Reports**

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 of the Reports were being delayed inordinately. Eighty five paragraphs and two performance audit on the Revenue Sector included in the Reports of the Comptroller and Auditor General of India of the Government of Arunachal Pradesh for the years ended 31 March 2010, 2011, 2012, 2013 and 2014 were placed before the State Legislature between 24 March 2011 and 21 July 2015. However, Audit Reports for the

year ended March 2015 is yet to be placed in the State Legislature. The action taken explanatory notes from the concerned Departments on these paragraphs were received late with average delay of 24 months in respect of each of these Audit Reports. Action taken explanatory notes in respect of 13 paragraphs from various departments had not been received for the Audit Report year ended 31 March 2014 (February 2017).

The PAC discussed 32 selected paragraphs pertaining to the Audit Reports for the years from 2001-02 to 2012-13 and its recommendations on 2 paragraphs were incorporated in their 60<sup>th</sup> Report (27 September 2012). Out of 32 paragraphs, 18 paragraphs were settled by the PAC. Action Taken Notes (ATNs) have not been received in respect of 14 recommendations of the PAC related to the Audit report for the year 2001-02 to 2012-13 from the Tax & Excise and Geology & Mining Departments as mentioned in the following table:

**Table 4.1.6**

Year	Name of the Department	No. of Recommendation
2001-02	Tax & Excise	1
2002-03	Geology & Mining	1
2003-04	Tax & Excise	1
2004-05	Tax & Excise	1
2006-07	Geology & Mining	3
2007-08	Geology & Mining	2
2008-09	Geology & Mining	1
2009-10	Geology & Mining	1
2012-13	Geology & Mining	3
<b>Total</b>		<b>14</b>

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

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

The succeeding paragraphs 4.1.10.1 and 4.1.10.2 discuss the performance of the Environment, Forest & Wildlife Department under revenue head '0406 Forest' and cases detected during the course of local audit during the last 10 years and also cases included in Audit Reports for the years 2006-07 to 2015-16.

##### **4.1.10.1 Position of Inspection Reports**

The summarized position of the Inspection Reports under revenue head-'0406 Forest' issued during the last 10 years, Paragraphs included in the Reports and their status as on 31 March 2016 are shown in the following table:

**Table- 4.1.7: Position of Inspection Reports**

(₹ in lakh)

Sl.No	Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance during the year		
		IRs	Para	Money value	IRs	Para	Money value	IRs	Paras	Money value	IRs	Para	Money value
1.	2006-07	79	179	170.76	8	30	248.88	3	12	2.85	84	197	416.79
2.	2007-08	84	197	416.79	11	63	3411.71	12	44	37.36	83	216	3791.14
3.	2008-09	83	216	3791.14	0	0	0	6	17	153.53	77	210	3637.81
4.	2009-10	77	210	3637.81	8	33	2163.09	0	3	00	85	240	5800.9
5.	2010-11	85	240	5800.90	4	22	263.30	2	2	0.15	87	260	6064.05
6.	2011-12	87	261	6064.05	1	4	0	0	5	5.15	88	260	6058.9
7.	2012-13	88	260	6058.90	0	0	0	04	16	59.75	84	244	5999.15
8.	2013-14	84	244	5999.15	02	0	0	03	16	30.14	83	228	5969.01
9.	2014-15	83	228	5969.01	1	1	416.08	0	1	24.01	84	228	6361.08
10.	2015-16	84	228	6361.08	5	25	1243.64	0	1	40.07	89	252	7564.65

The Government arranges Audit Committee meetings between the Department and Accountant General's office to settle the old paragraphs.

#### 4.1.10.2 Recovery of Accepted Cases

The position of Paragraphs included in Audit Reports of the last 10 years, those accepted by the Department and amounts recovered are mentioned in the following table.

**Table – 4.1.8**

SL. No.	Year	No. of Paragraphs included	Money value of the paragraphs (₹ in crore)	No. of paragraphs accepted having Money value	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in crore)	Cumulative position of recovery of accepted cases of 31 March 2015 (₹ in crore)
1	2005-06	23	23.17	Nil	Nil	Nil	Nil
2	2006-07	24	31.98	6	15.44	Nil	Nil
3	2007-08	21	110.58	3	0.28	0.01	0.01
4	2008-09	21	31.87	1	0.04	Nil	0.01
5	2009-10	20	49.65	3	0.17	0.05	0.06
6	2010-11	19	12.26	Nil	4.80	0.14	0.20
7	2011-12	23	5.51	Nil	0.92	Nil	0.20
8	2012-13	11	27.46	Nil	Nil	Nil	0.20
9	2013-14	12	3.74	Nil	Nil	Nil	0.20
10	2014-15	9	6190.22	Nil	Nil	Nil	0.20
<b>Total</b>		<b>183</b>	<b>6486.44</b>	<b>13</b>	<b>21.65</b>	<b>0.20</b>	<b>0.20</b>

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



Commissioner, Tax & Excise Department. In the absence of a suitable mechanism, the Department could not monitor recoveries of accepted cases.

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

#### **4.1.11 Audit Planning**

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

During 2015-16, there were 131 auditable units, of which 14 were planned and 24 were actually audited, which is 18.32 *per cent* of the total auditable units. Besides the Compliance Audit mentioned above, audit of Transport Department was also conducted to examine the efficiency and effectiveness of Collection of Revenue from outsourced activities.

#### **4.1.12 Results of Audit**

##### **Position of Local Audits conducted during the year**

Test check of records of 24 units of Sales Tax/Value Added Tax, Forest Receipts and Motor Vehicles Tax Offices conducted during 2015-16 showed under assessment/short levy/loss of revenue aggregating ₹ 73.19 crore in 160 cases. During the course of the year, Departments concerned accepted under-assessment and other deficiencies of ₹ 1.75 crore involved in 20 cases, which were pointed out in audit during 2015-16. Departments collected ₹ 0.12 crore in three cases during 2015-16, pertaining to audit findings of the previous year.

#### **4.1.13 Coverage of this Report**

This Report contains ten paragraphs including one paragraph on result of Collection of Revenue from outsourced activities in Transport Department. The replies furnished by the Department/Government in respect of one paragraph have been incorporated in the report. However no reply has been received in respect of the remaining nine paragraphs (February 2017).

## COMPLIANCE AUDIT PARAGRAPHS

### TRANSPORT DEPARTMENT

#### 4.2 Collection of Revenue from outsourced activities in Transport Department

##### 4.2.1 Introduction

Department of Transport (DoT), Government of Arunachal Pradesh is governed by the Central Motor Vehicles (CMV) Act, 1988, the Central Motor Vehicles (CMV) Rules, 1989 and the Arunachal Pradesh Motor Vehicle Taxation Act, 1984. As per the Supreme Court verdict and orders of the Ministry of Road Transport and Highways (MoRTH), affixtures of High Security Registration Plates (HSRP) under the provision of Rule 50 of the Central Motor Vehicles Rules, 1989 has to be ensured on all newly registered vehicles as well as old vehicles in phased manner within two years from the date of implementation. Further, as per Rule 115 (7) of the Central Motor Vehicles Rules, 1989 every motor vehicle shall carry a valid Pollution under Control (PUC) certificate after the expiry of one year from the date on which the motor vehicle was first registered. The PUC certificate is to be issued by an agency authorized for this purpose by the State Government.

The State Government outsourced the activities of affixing of HSRP and issuing of PUC certificate to two private firms as per the following details:

**Table - 4.2.1**

Name of the outsourced activity	Name of the outsourced agency	Date of outsourcing
HSRP	M/s Shimnit Utsch India Pvt Ltd, Mumbai	March 2012
PUC	M/s North East Environment Engineers & Consultants, Naharlagun	November 2009

The Department of Transport is headed by Commissioner and assisted by Joint Secretary, Transport, one Director of Transport (who is also the ex-officio Secretary, State Transport Authority) and one Joint Director of Transport. There are also 12 District Transport Officers (2 DTOs in the Directorate and 10 DTOs in Districts). Due to shortage of DTOs, the Extra Assistant Commissioners (EACs) and Circle Officers are functioning as DTOs in 12 out of 22 Districts of the State.

As HSRP and PUC Schemes are important for the State both from the aspect of vehicular security and revenue collection and control of automobile pollution. It was decided to conduct an audit to examine the efficacy and effectiveness of the two outsourced activities and revenue generated there from. Audit test-checked the records of the Director, Department of Transport, Naharlagun and seven District Transport Officers<sup>1</sup> (DTOs) selected on the basis of availability of HSRP Centres, and records relating to the two firms doing this work covering a period from 2013-14 to 2015-16. The audit findings are given in the succeeding paragraphs.

<sup>1</sup> (i) DTO, Capital; (ii) DTO, Yupia; (iii) DTO, Pasighat; (iv) DTO, Aalo; (v) DTO, Ziro; (vi) DTO, Tezu; (vii) DTO, Bomdila.

**Audit Findings****4.2.2 High Security Registration Plates (HSRP) Scheme****4.2.2.1 Tendering Process**

The Director of Transport, Government of Arunachal Pradesh, Naharlagun issued Notice Inviting Tender (NIT) on 24 August, 2011 for selecting a firm for implementation of High Security Registration Plates (HSRP) Scheme in the State. Two firms namely, (i) M/s Shimnit Utsch India Pvt. Ltd, Mumbai and (ii) M/s Real Mazon India Ltd, New Delhi submitted their bids. A tender board consisting of six members constituted (September 2011) for evaluation of bids met in October 2011 and found that M/s Real Mazon India Ltd, New Delhi was not technically qualified as it did not have the prescribed minimum one year of experience on HSRP. The bid of M/s Shimnit Utsch India Pvt. Ltd, Mumbai was also rejected on the ground that rates were quoted differently for the same items in two different forms. The board recommended for fresh tender and a fresh NIT was floated on 25 October 2011. Again the same two firms participated in the bid. The firm M/s Shimnit Utsch India Pvt. Ltd, Mumbai qualified both in technical and financial bids and was selected after price negotiation.

The rates offered by the firm and adopted by the Government was as follows:

**Table - 4.2.2**

Type of vehicle	Basic price (₹)	Fixing charges (₹)	Total sale price of HSRP(₹)
2 wheeler	528.00	132.00	660.00
3 wheeler	638.40	159.60	798.00
4 wheeler	1254.40	313.60	1568.00

As per terms of the agreement the contractor, M/s Shimnit Utsch India Pvt. Ltd. was to pay a sum equivalent to 5 *per cent* of the amount collected on sale of HSRP from vehicles owners, within 30 days of close of the preceding month.

**4.2.2.2 Physical achievement against target**

Department of Transport issued a notification (2 March 2012) stating that all new vehicles that are registered after issue of this order shall be required to affix HSRP and all existing vehicles would have to convert to HSRP within two years from March 2012. All commercial vehicles were to replace existing number plates with new HSRP at the time of paying of taxes/renewal of permits. Any vehicle owner not complying with the order would be treated to have violated provisions of Section 39 of the Central Motor Vehicles (CMV) Act, 1988 and their vehicles shall be deemed to be plying without registration under Section 53, 54 and liable to be prosecuted and pay penalty of minimum ₹ 2,000 and maximum ₹ 5,000 under Section 192 of the said Act.

Audit observed that the vehicle population of the State was 1,51,279 as on 31 March 2012 which went up to 3,08,400 vehicles by 31 March 2016 indicating an increase of 103.86 *per cent* over a period of four years. However, out of these 3,08,400 number of

vehicles only 36,374 vehicles (11.79 per cent) were installed with HSRP and the balance 2,72,026 vehicles (88.21 per cent) were plying without HSRP as on 31 March 2016 in violation of the above notification. This also deprived the State Government of revenue to the tune of ₹ 1.77 crore which could accrue from installation of HSRP on ₹ 2.72 lakh vehicles as per details given below:

**Table - 4.2.3**

Type of vehicle	Registered vehicles (as on 31.3.2016)	Vehicles with HSRP installed (till 31.3.2016)	Non-HSRP installed Vehicles (as on 31.3.2016)	Rate of HSRP (₹)	Amount not collected (₹ in lakh)
2 wheeler	96,890	18,439	78,451	660	517.78
3 wheeler	3,032	342	2,690	798	21.47
4 wheeler	2,08,478	17,593	1,90,885	1,568	2,993.07
<b>Total</b>	<b>3,08,400</b>	<b>36,374</b>	<b>2,72,026</b>		<b>3,532.32</b>
<b>Govt. revenue due @ 5%</b>					<b>176.62</b>

Audit further observed that out of a total 1,35,034 vehicles registered in seven selected DTOs<sup>2</sup>, only 32,734 vehicle owners had installed HSRP (24.24 per cent) and the balance 1,02,300 vehicles (75.76 per cent) were plying without HSRP as detailed in **Appendix-4.2.1**.

Out of seven test-checked DTOs, only DTO, Aalo conducted 4 inspections in 2014-15 to check compliance to HSRP requirements. However, the other six DTOs did not conduct a single inspection of vehicles. The reason for non-inspection of vehicles by these DTOs was stated to be due to lack of enforcement wing in their offices to carry out periodical checking of vehicles.

While accepting the audit observation, the Department stated (October 2016) that a proposal for creation of enforcement wing has been submitted to the State Government for approval. However, the fact remains that the Department failed to implement HSRP in the entire State and could only implement partially in 14 districts out of 22 Districts in the State. Further, the State Government failed to formulate any action plan indicating monthly/quarterly target for coverage, milestones and time-frame for monitoring and reporting of progress by the firm.

#### **4.2.2.3 High rate of HSRP and extra burden on vehicle owners**

As per the Agreement signed between the Government and the firm (1 March 2012), the rates of HSRP were fixed at ₹ 1,568/- for four wheelers, ₹ 798/- for three wheelers and ₹ 660/- for two wheelers.

Audit observed that the above rates were accepted by the State Government from a single bidder without ensuring competitive rates. In order to assess the reasonability of the rates adopted as per the contract, Audit made a comparison of rates in different States of the North East Region (NER) as given in the following table:

<sup>2</sup> DTOs: Aalo; Bomdila; Capital; Pasighat; Tezu; Yupia; Ziro.

Table - 4.2.4

(in ₹)

Sl No	Name of the State	Name of firms	Rate of affixing HSRP	
			four wheelers	two wheelers
1	Arunachal Pradesh	M/s Shimnit Utsch India Pvt. Ltd	1,568	660
2	Assam	M/s Agros Impex (I) Pvt. Ltd.	413	161
3	Manipur	M/s Shimnit Utsch India Pvt. Ltd	735	597
4	Mizoram	M/s Shimnit Utsch India Pvt. Ltd	945	669
5	Nagaland	M/s Shimnit Utsch India Pvt. Ltd	1,298	599
6	Tripura	M/s Ackruti Safeguard Systems Pvt. Ltd.	668	385

Audit noticed that the rate offered by M/s Shimnit Utsch India Pvt. Ltd. to Government of Arunachal Pradesh was more than prevailing rates in other NER States. The same firm offered the lowest rate to Manipur i.e. ₹ 735/- for four wheelers, and ₹ 597/- for two wheelers whereas the rate offered to Arunachal Pradesh was ₹ 1,568/- for four wheelers and ₹ 660/- for two wheelers, which was higher by ₹ 833/- and ₹ 63/- respectively. Thus, in comparison with the rates of Manipur, Mizoram and Nagaland, high rates of HSRP in Arunachal Pradesh added extra burden on the vehicle owners (Two wheeler and Four wheeler) at the end of March 2016 and thus, extended financial benefit to M/s Shimnit Utsch India Pvt Ltd.

Audit also observed that Government of Arunachal Pradesh took up the matter with the firm (June 2014) to review the existing rate stating that they were higher than many States and to offer a lower rate considering the economic condition of the people of the State. In response, the firm offered reduced rates in September 2014 as shown in the following table:

Table - 4.2.5

Type	Current Rate (₹)	Reduced rate (₹)	Difference (₹)
Two Wheelers	660	600	60
Three Wheelers	798	690	108
Four Wheelers	1568	1400	168

If the reduced rate offered by the firm had been implemented by the State Government, there would have been reduction in burden on the 16,454 vehicle owners which have installed HSRP between September 2014 and March 2016.

However, the reduced rate as offered by the firm was not implemented till date (February 2017). The State Government intimated (October 2016) that the reduced rate offered by the firm would be implemented soon.

#### 4.2.2.4 Shortfall in deposit of Government revenue

As per data furnished by M/s Shimnit Utsch India Pvt. Ltd. 36,374 vehicles (18,439 two wheelers, 342 three wheelers and 17,593 four wheelers) have installed HSRP during the period from October 2012 to March 2016. Consequently, the firm earned ₹ 400.29 lakh from the sale of HSRP. Out of ₹ 400.29 lakh, the accrued revenue to the State

Government was ₹ 20.01 lakh (@ 5 per cent on ₹ 400.29 lakh as royalty) as given in the following table:

**Table - 4.2.6**

Type of vehicle	Rate of HSRP (₹)	Nos. of HSRP installed vehicle (as on 31.3.2016)	Amount collected (₹ in lakh)
2 wheeler	660	18439	121.70
3 wheeler	798	342	2.73
4 wheeler	1568	17593	275.86
<b>Total</b>		<b>36374</b>	<b>400.29</b>
<b>Govt. revenue @ 5%</b>			<b>20.01</b>

Against ₹ 20.01 lakh, documentary evidence of revenue deposit of only ₹ 12.23 lakh could be produced to Audit. Thus, audit could not ascertain deposit of the balance ₹ 7.78 lakh by the firm.

The Department in its reply stated (October 2016) that the total amount deposited by the firm for the period October 2012 to March 2016 was ₹ 16.36 lakh and documentary evidence of deposit was available for ₹ 11.77 lakh only and the firm has been directed to furnish details of ₹ 4.59 lakh.

The reply of the Department is not acceptable as the revenue due to the State Government on the basis of the number of vehicle to which HSRP issued worked out to ₹ 20.01 lakh and not ₹ 16.36 lakh as communicated by the Department. Thus, the Department had failed to collect the balance amount of revenue due i.e. ₹ 7.78 lakh from the firm.

#### **4.2.2.5 Deposit of VAT deducted by the firm not verified in audit**

As on 31 March 2016, the firm had collected VAT of ₹ 43.22 lakh from the owners of these vehicles on affixing HSRP as shown in the following table:

**Table - 4.2.7**

Type of vehicle	Nos of vehicles installed HSRP (till 31.3.2016)	Rate (excluding fixing charge) (₹)	Total Sale Price excluding fixing charges (₹ in lakh)	VAT collected @ 13.5 per cent (₹ in lakh)
2 wheeler	18439	528.00	97.36	13.14
3 wheeler	342	638.40	2.18	0.29
4 wheeler	17593	1254.40	220.69	29.79
<b>Total</b>	<b>36374</b>		<b>320.23</b>	<b>43.22</b>

However, on cross-verification with Superintendent of Tax (ST), Zone-I, Naharlagun, it was revealed that though the firm was registered (February 2012) with the ST under the provisions of the APGT Act, 2005, no tax returns were filed by the firm since February 2012 to till date of Audit (August 2016). As such, audit could not ascertain whether the VAT of ₹ 43.22 lakh charged from the vehicles owners for HSRP was actually deposited by the firm into the Government account.

Audit also observed that the firm charged VAT @ 13.5 per cent from the vehicle owners although there is no such rate in the APGT Act. However, as HSRP is not listed in any of the schedules of the Act, VAT @ 12.5 per cent was applicable on HSRP. Due to charging of VAT @ 13.5 per cent by the firm, an additional total burden of ₹ 3.20 lakh (1 per cent of ₹ 320.23 lakh) was put on the vehicle owners.

In reply, the Department stated (October 2016) that it has issued directions to the firm to comply with the VAT law and deposit the amount as pointed out by audit to Government Account. However, no further reply has been received (February 2017).

#### **4.2.2.6 Non-compliance to contract agreement by the firm**

As per Clause 18.3 of the Agreement, M/s Shimnit Utsch India Pvt. Ltd. is required to submit details of HSRP installed and amount collected and royalty payable to the State Government in prescribed format before the 7<sup>th</sup> of each succeeding month to the Director of Transport.

Audit, however, noticed that the firm never submitted the monthly statement in prescribed format since October 2012 till August 2016 in violation of the contract agreement. The Department also failed to ensure submission of monthly statement by the firm. Had the firm submitted the monthly statement as per the contract condition, the Department of Transport would have come to know the actual number of vehicles affixed with HSRP and the total amount collected by the firm and the royalty due to the State Government. In the absence of such monthly statements in the Department of Transport, Audit had to solely rely on the figures as provided by the firm, which was stated to be 36,374 vehicles affixed HSRP as on 31 March 2016, and the consequential earnings of the firm was ₹ 400.29 lakh.

Consequently, audit could not cross-verify the authenticity of the figure furnished by the firm with that of the monthly statement containing amount collected from vehicles affixed with HSRP as the requirement was not complied by the firm. Due to non-submission of monthly statement of fees/amount collected from vehicles actual amount of revenue due to Government and the number of vehicles actually affixed with HSRP cannot be authenticated in Audit.

The Department stated (October 2016) that the firm has been instructed for regular submission of revenue statement by 7<sup>th</sup> of each calendar month.

#### **4.2.3 Automobile Emission Testing (AET) to issue PUC certificates**

As per Rule 115 (7) of the Central Motor Vehicles Rules, 1989 every motor vehicle shall carry a valid Pollution under Control (PUC) certificate to be issued by an agency authorized for this purpose by the State Government, after the expiry of one year from the date on which the motor vehicle was first registered. The validity of the certificate shall be for six months and the certificate shall always be carried in the vehicle and produced on demand by the enforcement officers.

“Automobile Emission Testing (AET)” for the whole State was outsourced under the provision of Section 115 (7) of the Central Motor Vehicle Rules, 1989 to M/s North East Environment Engineers & Consultants (NEEEEC), Naharlagun (9 November 2009) on

payment of licence fee of ₹ 5,000 and renewal fee of ₹ 5,000 annually to the State Government. The revenue sharing between the firm and the State Government is as follows:

**Table - 4.2.8**

(in ₹)

Sl. No.	Class of vehicle	Testing fee	Govt. surcharge	Total
1	All 2 wheelers	80	20	100
2	3 wheelers (petrol)	100	25	125
3	3 wheelers (diesel)	125	25	150
4	Motor Car (petrol/diesel) upto 5 seater	150	50	200
5	Maxi Cab (petrol/diesel) from 5 seater to 11 seater	150	50	200
6	All diesel vehicles (except above)	200	50	250

Audit observed that the State Government assigned M/s NEEEC for carrying out auto emission testing for the whole State without call of tender. No formal agreement specifying terms and conditions for setting up testing stations was signed between the two parties. Out of 22 Districts in the State the firm had set up only four Automobile Emission Testing Stations (AETS)<sup>3</sup> in four Districts during the period from November 2011 to March 2016.

#### **4.2.3.1 Low issue of PUC certificates**

Audit observed that out of seven sampled DTOs, five DTOs<sup>4</sup> were covered by AETS and no AETS were installed in the other two sampled DTOs<sup>5</sup> during audit coverage period.

Audit further observed that as per the records furnished by the firm a total 1,895 PUC certificates were issued in the State with effect from November 2009 till 31 March 2016 against the 1,10,799 vehicles registered in the five DTOs where AETS were already installed. The surcharge to the extent of ₹ 80,670 was deposited by the firm to Government account. The number of registered vehicles in seven sampled DTOs was 1,35,034 as on 31 March 2016. The details are shown in **Appendix-4.2.2**.

Thus, even after more than six years from the date of outsourced activity to issue PUC, only four AETS in four Districts out of 22 Districts in the State were covered.

The above position indicates poor compliance to mandatory requirements of PUC certificates as per Rule 115 (7) of the CMV Rules, 1989.

#### **4.2.3.2 Potential loss of revenue from issue of PUC**

As per information furnished to Audit by the Department of Transport, 2,72,903 vehicles (73,463 two wheelers, 2,218 three wheelers and 1,97,222 four wheelers) were more than one year old (being registered on or before 31 March 2015) which required to obtain PUC certificates as per following table:

<sup>3</sup> (i) Papumpare Dist; (ii) West Siang Dist; (iii) Lower Subansiri Dist; (iv) West Kameng Dist.

<sup>4</sup> Aalo; Bomdila; Capital; Yupia; Ziro.

<sup>5</sup> Pasighat; Tezu.



Table - 4.2.9

Type of vehicle	Nos. of one year old vehicle (31.3.2016)	Nos. of vehicle with PUC (31-3-2016)	Vehicle without PUC (31-3-2016)	Rate of Surcharge on PUC	No. of six monthly period during 2015-16	Potential loss to Govt. during 2015-16 (₹ in lakhs)
2 wheeler	73463	465	72998	20	2	29.20
3 wheeler	2218	37	2181	25	2	1.09
4 wheeler	197222	1393	195829	50	2	195.83
<b>Total</b>	<b>272903</b>	<b>1895</b>	<b>271008</b>			<b>226.12</b>

It can be seen from the above table that as many as 2,71,008 vehicles (one year old) were plying without PUC certificate on 31 March 2016 mainly due to weak enforcement of Rule 115 (7) of the CMV Rules, 1989 by DTOs. This has also led to low revenue collection by AETS and consequently the State was deprived of the potential minimum revenue earnings during 2015-16 alone to the extent of ₹ 226.12 lakh against 2,71,008 vehicles plying without PUC certificate.

#### 4.2.3.3 Lack of enforcement against defaulters

Section 190 (2) of the Central Motor Vehicle (CMV) Act 1988 states that any person who drives or causes or allows to be driven, in any public place a motor vehicle, which violates the standard prescribed in relation to road safety, control of noise and air-pollution, shall be punishable for the first offence with a fine of one thousand rupees and for any second or subsequent offence with a fine of two thousand rupees.

In the selected seven DTOs<sup>6</sup>, there were 1,35,034 registered vehicles as on 31 March 2016. Against these registered vehicles, only 1,895 (1.40 *per cent*) were issued PUC certificate and the balance 1,33,139 vehicles (98.60 *per cent*) were plying without PUC certificate as already stated in Para 4.2.3.1.

Audit, however, observed that there was no mechanism to detect vehicles without PUC certificates adopted by the DTOs and no penalty was imposed on the defaulters during the period of Audit.

Thus, plying of majority of vehicles without PUC can be attributed to absence of enforcement by the DTOs which would have consequential effect on vehicular pollution in the State.

The Department replied (October 2016) that it is running with acute shortage of staff and the State Government has to strengthen the Department to overcome the enforcement problems.

#### 4.2.4 Monitoring

Audit observed that the Transport Department did not have any mechanism in place to monitor the vehicles which have not affixed HSRP. None of the seven selected DTOs maintained any records of vehicles which were issued authorization letters for installation of HSRP.

<sup>6</sup> i) Aalo, ii) Bomdila, iii) Capital, iv) Pasighat, v) Tezu, vi) Yupia, vii) Ziro.

Further, in none of the five DTOs covered by the four AETS verified, the firm did not maintained the register to watch collection of government surcharge while issuing PUC certificate and submit monthly report to the Director of Transport as provided in the authorisation letter of November 2009.

Due to the lack of monitoring by the DTOs the implementation of both the HSRP and PUC schemes in the State was very poor.

#### **4.2.5 Conclusion**

The contract for HSRP was awarded to a private agency in March 2012. The rates accepted by the State Government were much higher as compared to the rates offered by the same firm to other North Eastern States. The State Government has not implemented the reduced rate offered by the firm in September 2014. Out of 22 District in the State only 14 Districts have been covered even after lapse of four years from the date of implementation of the scheme. In case of Automobile Emission Testing, even after a lapse of more than six years since its implementation, only 4 AETS were installed in 4 districts out of 22 Districts and 1,895 PUC certificates were issued out of 2,27,900 vehicles more than one year-old in the State indicating poor compliance to mandatory requirements. Due to poor implementation of the AETS the State Government suffered potential revenue loss.

#### **4.2.6 Recommendations**

The State Government may

- review the rates for HSRP to ensure competitive rates in comparison to the rates prevailing in other North Eastern States.
- implement the HSRP in the entire State in a time-bound manner to cover all new and existing vehicles.
- ensure all vehicles are running with Pollution Under Control Certificate as per the rule and cover the entire state under the Automobile Emission Testing to curb vehicular pollution.
- strengthen the enforcement mechanism on issue of HSRP and PUC to ensure compliance to the extant rules.

#### **4.3 Non-realization of Motor Vehicle Tax**

**Road Tax of ₹ 89.19 lakh due from the owners of 120 vehicles and leviable penalty of ₹ 23.30 lakh were not collected despite default for more than one year to seven years.**

Under Section 4 and Section 15 of the Arunachal Pradesh Motor Vehicle Taxation Act, 1984, road tax at the prescribed rate shall be paid by all motor vehicles owners used or kept for use in the State unless any vehicle is exempted from payment of tax by Taxation Officer by depositing registration certificate thereof on the ground that the vehicles would not be used in any public place for a particular period. Section 13 *ibid* further

provides that in the event of failure to pay the tax due, the Taxation Officer shall, in addition to the tax due, recover a sum not exceeding one fourth of the annual tax by way of penalty. The rate of annual road tax on vehicles like Dumper, Excavator, Camper Van, Fork Lift etc. was fixed at the rate of one *per cent* of the cost of the chassis/vehicle according to Schedule-IX of the Arunachal Pradesh Motor Vehicles Taxation (Amendment) Act, 2006.

Test check of records (February 2016) of the District Transport Officer (DTO), Capital Complex, Naharlagun, Papumpare District revealed that owners of 120 vehicles such as Excavator, Elevator and Backhoe Loader did not pay any road tax amounting to ₹ 89.19 lakh between 2009-10 to 2015-16 pertaining to the period ranging from one year to seven years. Further, the vehicle owners did not surrender registration certificates and obtain tax exemption from the Taxation Officer as required under the Act.

Thus, road tax of ₹ 89.19 lakh along with a penalty of ₹ 22.30 lakh for the default in payment of the tax was neither levied nor collected by the DTO, Naharlagun.

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

## Taxation Department

### 4.4 Loss of revenue due to short deduction of tax on work contracts

#### Loss of revenue of ₹ 5.72 crore due to application of incorrect tax rate at the time of Tax Deduction at Source from contractors' bills.

Under Section 5 (2) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005, a dealer executing works contract shall be liable to pay VAT on the taxable turnover arrived at after deduction of charges incurred towards labour, services, etc. If such charges are not ascertainable, a deduction of 25 *per cent* is allowed on the total turnover. Further, Section 47A of the Act *ibid* provides for deduction of VAT at source by the Government/Departments while making payment to works contractors at a rate of 12.5 *per cent* and at a rate of 4 *per cent* on the total value of works in respect of registered dealer who opted for 'Simplified Accounting Method for Works Contracts'. Under this method, the registered dealer has to apply to the Superintendent of Taxes (ST) under whom he is registered in form FF-14 that he is opting for the simplified method along with copies of his contract document. Besides, if the Drawing and Disbursing Officer (DDO) fails to deduct tax at source (TDS), he is also liable to pay penalty not exceeding twice the amount of tax.

(i) Cross-verification of records of the Superintendent of Tax (ST), Khonsa with those of the Executive Engineer (EE), Khonsa Highway Division, Khonsa (November 2015), revealed that a contractor (M/s JKM Infra Project Ltd, TIN-12080198124), executed civil works valued at ₹ 19.03 crore during 2014-15. The taxable turnover was ₹ 14.27 crore after allowing deduction of 25 *per cent* towards labour and service charges. While making payment to the contractor, the EE, however, deducted (December 2014 & February 2015) VAT of only ₹ 76.12 lakh at four *per cent* against required amount of

₹ 1.78 crore at the applicable rate of 12.5 *per cent* on the taxable turnover resulting in short-deduction of ₹ 1.02 crore.

(ii) Scrutiny of records (January 2016) of the Executive Engineer (EE), Rural Works Division, Roing revealed that 11 (eleven) unregistered contractors executed works contracts valuing ₹ 32.74 crore during July 2008 to November 2015, out of which taxable turnover was ₹ 24.55 crore (after deducting 25 *per cent* labour and service charges). However, while making payment to the contractor, the EE deducted VAT of ₹ 32.29 lakh (at the rate of 4 *per cent*) instead of ₹ 3.07 crore at the applicable rate of 12.5 *per cent* resulting in short-deduction of ₹ 2.75 crore. Further, the ST, Roing also failed to detect and register these 11 unregistered dealers.

(iii) Scrutiny of records of the Superintendent of Tax (ST), Lohit District, Tezu (August 2015) revealed that a registered works contractor (M/s Navayuga Dibang Infra Projects Pvt. Ltd.), had a turnover of ₹ 36.12 crore during the period 2012-13 against a civil works contract executed under Superintending Engineer (SE), Ministry of Road Transport & Highways (MORT&H), Itanagar. Audit, however, observed that though the contractor had not opted for '*simplified accounting method for works contract*', the Superintending Engineer (SE) deducted VAT of ₹ 1.44 crore @ four *per cent*, instead of ₹ 3.39 crore at the applicable rate of 12.5 *per cent* of VAT on the taxable turnover of ₹ 27.09 crore resulting in short-deduction of ₹ 1.95 crore. Moreover, the Assessing Officer (AO) did not detect the short deduction during the assessment of his return (August, 2015).

Thus, failure of the three DDOs to deduct TDS at the applicable rate led to short-deduction of tax of ₹ 5.72 crore. The DDOs were also liable to pay a penalty of ₹ 11.44 crore under Section 47A (10) of the Act.

The cases were reported to the Department/Government in May 2016; but reply has not been received (February 2017).

#### **4.5 Concealment of turnover**

**A dealer concealed sales turnover of ₹ 17.20 crore and evaded tax of ₹ 68.81 lakh on which interest of ₹ 16.38 lakh and penalty not exceeding ₹ 68.81 lakh were also leviable.**

Under Section 34(1)(b), and Section 87 (10) of the Arunachal Pradesh Goods Tax Act, 2005 (APGT), if any dealer has furnished incomplete or incorrect returns, the Commissioner may assess or re-assess the amount of tax due for a tax period and he will be liable, in addition to tax evaded, to pay penalty of a sum of ₹ one lakh or the amount of tax evaded whichever is greater. Further, Section 44 (2) of the said Act, provides payment of interest varying between 12 and 24 *per cent* per annum for the entire period of default in payment of tax.

Scrutiny of records of Superintendent of Tax (ST), Aalo (August 2015), revealed that during the period from July 2011 to March 2014, a registered dealer (M/s D.B. Enterprises) disclosed a nil turnover in his eleven returns filed during the

period. The Assessing officer (AO) assessed and accepted the returns furnished by the dealer. However, cross-verification of audited accounts furnished by ST, Aalo of the said dealer certified by Chartered Accountants (M/s P. Gaggar & Associates, Guwahati), revealed that during period from July 2011 to March 2014, the dealer's turnover was ₹ 17.20 crore.

As a result, evasion of tax amount of ₹ 68.81 lakh (even taking @ 4 per cent being the lowest rate of VAT) remained undetected by the AO.

Thus, minimum tax of ₹ 68.81 lakh remained unpaid. In addition the dealer is also liable to pay interest of ₹ 16.38 lakh (@ 12 per cent per annum calculated upto July 2015) and penalty of ₹ 68.81 lakh.

The case was reported to the Department/Government in May 2016; but reply has not been received (February 2017).

#### 4.6 Irregular exemption of tax

**A manufacturing unit was allowed exemption of tax without production of the required certificate from competent authority resulting in loss of revenue of ₹ 1.61 crore.**

Para 7 of the Arunachal Pradesh State Industrial Policy, 2008 provides for 99 per cent VAT/Entry Tax exemption to Eligible Industries Units (EIU) on import of actual raw materials, machineries and equipment into Arunachal Pradesh as well as on sale of finished goods in the State. As per para 5(1) and 6(1) of AP Industrial Tax Incentives Order, 2010, an eligible unit in order to avail exemption of the above tax requires to obtain Eligibility Certificate from Department of Industries and on that basis obtain Entitlement Certificate from Commissioner of Tax.

As per para 10 *ibid*, during pendency of application for Eligibility Certificate, exemption of tax can be granted for a period of six months only subject to the production of a certificate from the authority competent to issue such Eligibility Certificate to the effect that the application of the unit for the Eligibility Certificate is under consideration. If the unit cannot obtain the Eligibility Certificate within such period of three months for reasons not attributed to it, exemption of tax can be allowed for a further period not exceeding six months subject to the production of a fresh certificate from such competent authority.

Scrutiny of records of the Superintendent of Taxes (ST), Aalo (August 2015) revealed that M/s Rising Valley Industry, manufacturing Hydrated Lime, Slaked Lime had declared purchase (taxable at 4 per cent) and sales (taxable at 12.5 per cent) turnover of ₹ 7.04 crore and ₹ 10.68 crore during 2012-13 and 2013-14 respectively with tax liability of ₹ 1.62 crore<sup>7</sup>. The ST accepted the return filed by M/s Rising Valley Industry and allowed payment of only ₹ 0.46 lakh (August 2013) against a VAT liability of ₹ 1.62 crore without the required Eligibility and Entitlement certificates as per the rules. Even

<sup>7</sup> Input Tax: ₹ 0.28 crore + Output Tax: ₹ 1.34 crore.

with submission of the required certificates and the corresponding exemption, the payable tax of 1 *per cent* would be ₹ 1.62 lakh. Moreover, the tax exemption was allowed by the ST merely on the basis of the assurance given by the contractor that he has applied for the EC (July 2013).

Thus, allowing tax exemption without production of the required certificate was in violation of the para 10 of AP Industrial Tax Incentives Order, 2010. Even subsequently, though no fresh certificate from the Director of Industries was produced by the contractor, the ST has not recovered the tax liability of ₹ 1.61 crore<sup>8</sup>.

Thus, failure of ST to assess the return of the contractor at the applicable rate in violation of the extant rule resulted in loss of revenue to the tune of ₹1.61 crore.

The case was reported to the Department/Government in May 2016; but reply has not been received (February 2017).

#### **4.7 Evasion of tax**

**Failure of the Superintendent of Tax (ST) to assess the self-assessed returns submitted by the dealer led to evasion of tax of ₹ 41.47 lakh on which interest ₹ 23.16 lakh and penalty of not exceeding ₹ 41.47 lakh was also leviable.**

Under Section 34 (1) (b), and Section 87(10) of the APGT Act, 2005 if any person has furnished incomplete or incorrect returns, the Commissioner may assess or re-assess the tax due for a tax period, and the dealer will be liable, in addition to tax evaded, to pay penalty of a sum of ₹ one lakh or the amount of tax evaded whichever is greater. Further, Section 44 (2) of the Act stipulates payment of interest ranging between 12 to 24 *per cent* per annum for the period of default in payment of due tax.

As per Section 7(1)(a) of the Act *ibid* no VAT will be imposed on sale of goods in the course of inter-State trade or commerce under the purview of Central Sales Tax (CST) Act, 1956 on utilizing 'C-Form' by a purchasing dealer. Otherwise, the sale will be treated as local sale and the applicable rate of VAT will be levied under the APGT Act.

Scrutiny of records of the Superintendent of Tax (ST), Tirap District, Khonsa (November 2015), revealed that a dealer (M/s Ang Tea & Agro Products Pvt. Ltd) registered under both VAT and CST engaged in sale of tea which is taxable @ 12.50 *per cent* under the Act. The dealer disclosed a total turnover of ₹ 3.32 crore (Inter-State sale of ₹ 3.29 crore and local sale ₹ 2.97 lakh) in his 14 nos of self-assessed returns for the tax period 2009-10 to 2012-13 indicating the amount of Inter-State sale with nil tax liability without producing any proof of VAT payment for local sales or 'C Form' required for the Inter-State trade. In the absence of C Form for the Inter-State sale, the entire turnover of the dealer was to be treated as local sale and he was liable to pay VAT of ₹ 41.47 lakh (12.5 *per cent* on ₹ 3.32 crore). Further, the dealer neither has filed return nor paid any tax from March 2013 till the date of audit (November 2015).

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<sup>8</sup> ₹ 1.62 crore - ₹ 0.046 lakh = ₹ 1.61 crore.

Thus, failure of the ST to assess the self-assessed returns submitted by the dealer led to evasion of tax of ₹ 41.47 lakh. The dealer was also liable to pay a minimum interest of ₹ 23.16 lakh (@ 12 per cent per annum calculated up to March 2016) for non-payment of tax and penalty of ₹ 41.47 lakh for evasion of the tax.

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

#### 4.8 Loss of Revenue

**The Executive Engineer made payment to a dealer/supplier of VAT component of ₹ 1.36 crore on fake documents of payment of Entry Tax produced by the dealer.**

As per the Arunachal Pradesh Entry Tax (APET) Act, 2010 Para 3 (1), entry tax shall be levied and collected on the entry of specified goods into local area for consumption, use of sale therein, at the rates respectively specified against each item in the schedule. The entry tax shall be leviable on the import value of the specified goods and shall be paid by every importer of such goods @ 12.5 per cent for goods not specified in the schedule. Further, as per Para 3 (2), where an importer of specified goods liable to pay tax under APET Act, being a dealer in the specified goods, becomes liable to pay tax under the Arunachal Pradesh Goods Tax (APGT) Act, 2005 by virtue of sale of such specified goods, then the liability under the APGT Act shall be reduced to the extent of tax paid under APET Act. The Government of Arunachal Pradesh in its notification of April 2007, instructed all purchasing Government Departments to deduct VAT at source. In Arunachal Pradesh 'electrical goods' are taxable @ 12.5 per cent under Section 4 (1) (d) of APGT Act, 2005.

Scrutiny of records of the Executive Engineer (EE), Naharlagun Electrical Division, Department of Power revealed that the EE made payment (February 2009 to November 2014) of ₹ 23.94 crore<sup>9</sup> to a supplier (M/s Reniya Enterprises, Itanagar) for supply-cum-erection works under Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) scheme in Papumpare District, which included ₹ 1.49 crore towards VAT @ 12.5 per cent on supply of electrical goods.

On further examination, Audit observed that VAT of ₹ 1.36 crore was released by EE to the firm on the basis of seven (7) money receipts submitted to show payment of entry tax purportedly issued by the Superintendent of Tax, Border Facilitation Counter, Banderdewa. The EE released the VAT component on the plea that either entry tax or VAT was payable by the firm as per the APET Act, 2010.

However, on cross verification of records (January 2015) with the Superintendent Tax, it was observed that out of 7 money receipts valued ₹ 1.62 crore submitted by the firm to

<sup>9</sup> Gross amount ₹ 23.94 crore (Sagalee package ₹ 13.85 crore-Supply ₹ 7.88 crore, erection – ₹ 3.13 crore and VAT ₹ 0.86 crore, duties freight and insurance ₹ 3.70 crore) and Doimukh package ₹ 10.09 crore (supply ₹ 5.84 crore, Erection ₹ 2.03 crore, VAT ₹ 0.63 crore and freight and insurance ₹ 2.22 crore).

Out of total VAT ₹ 1.49 crore, ₹ 1.36 crore paid to firm and balance ₹ 0.13 crore is withheld.

support the claim of his payment of entry tax, 5 money receipts<sup>10</sup> valued ₹ 1.59 crore was found to be fake and only two money receipts<sup>11</sup> valued ₹ 0.03 crore was found genuine by the Superintendent of Tax (February 2015). Even after confirmation of the money receipts being fake on the basis of audit query (January 2015), the Superintendent of Tax failed to make recovery of ₹ 1.36 crore from M/s Reniya Enterprises, Itanagar. Subsequently, Audit again reported (May 2016) the case to Superintendent of Tax, and requested to intimate the status of recovery of ₹ 1.36 crore from the supplier (M/s Reniya Enterprises, Itanagar).

Thus, the ST failed to recover the amount of ₹ 1.36 crore from M/s Reniya Enterprises, Itanagar shown as entry tax paid on fake money receipts despite knowing that the EE, Naharlagun Electrical Division did not deduct ultimately the VAT component in violation of the APGT Act resulting in loss of revenue of ₹ 1.36 crore to the State Exchequer.

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

#### **4.9 Short-realization of Entry Tax**

**Superintendent of Tax, Bhalukpong short-realised entry tax of ₹ 1.42 crore from a dealer on total taxable goods imported ₹ 17.42 crore.**

Section 3 (1) of the Arunachal Pradesh Entry Tax Act, 2010 provides that subject to the other provisions of the Act, an entry tax will be levied and collected on the entry of specified goods into any local area for consumption, use or sale therein, at the rates respectively specified against each item in the schedule.

Section 5(a)(iv) of the Arunachal Pradesh Goods Tax (APGT) Act, 2005 stipulates that the tax due on the entry of goods shall be paid when the goods are imported into the State. Further, Section 44 (2) of the APGT Act stipulates that in case of default in payment of due tax interest between 12 to 24 *per cent* per annum computed on daily basis for the period of default on the amount of tax due is leviable.

Scrutiny of records (February 2016) of the Superintendent of Taxes (ST), Border Facilitation Counter (BFC), Bhalukpong, revealed that a dealer (M/s Platinum Alloys Pvt. Ltd., Tippi), registered under both VAT and CST, imported goods valued at ₹ 17.42 crore (₹ 8.75 crore taxable at 4 *per cent* and ₹ 8.67 crore taxable at 12.5 *per cent*) from outside the State between March 2007 and June 2011. The Officer-in-charge of the BFC, however, allowed the goods to enter the State by collecting only partial entry tax in violation of the extant rules.

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<sup>10</sup> 1) 846602 dtd 06.12.2008 - ₹ 6.51 lakh, 2) 846603 dtd 11.06.2009 - ₹ 99.69 lakh, 3) 448605 dtd 24.05.2009 - ₹ 14.77 lakh, 4) 448605 dtd 13.07.2009 - ₹ 23.04 lakh, 5) 356631 dtd 28.06.2009 - ₹ 15.18 lakh.

<sup>11</sup> 1) 556700 dtd 17.07.2009 - ₹ 1.68 lakh, 2) 546269 dtd 30.08.2009 - ₹ 0.86 lakh.



Audit noticed that the dealer paid entry tax of only ₹ 1.01 lakh against his total tax liability of ₹ 1.43 crore.<sup>12</sup> As a result, entry tax of ₹ 1.42 crore (₹ 1.43 crore - ₹ 0.01 crore) along with interest of ₹ 0.77 crore (@ 12 per cent P.A. up to December 2015) was remaining unrealized. The ST, has not initiated any action to recover the tax due from the firm (February 2016).

Thus, failure of the ST, Bhalukpong to collect the entry tax due as prescribed under the Rules at the time of import of goods, resulted in short-realisation of revenue of ₹ 1.42 crore on which interest of ₹ 0.77 crore was also leviable.

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

### Land Management Department

#### 4.10 Non-realisation of Lease Rent

**Failure of the Department to assess and recover lease rent led to non-realisation of revenue of ₹ 30.53 lakh from SBI, Roing along with interest of ₹ 32.39 lakh.**

Rule 6 (iii) of the Arunachal Pradesh Allotment of Government Land Rules, 1988 stipulate that the allottee or lessee shall pay lease rent annually at the rates fixed by the Government from time to time. As per terms and condition in allotment orders of government vide clause A (ix), an interest of 10 and 15 per cent per annum will be charged on unpaid amount of lease rent from private and commercial allotment respectively.

The Government of Arunachal Pradesh, in its notification dated 21 July 1986 fixed the annual lease rent for business, hotels, industries etc. located in Districts at ₹ 0.50 per Sq. metre which was further revised to ₹ 2.00 per Sq. metre in 1994 and to ₹ 3.00 per Sq. metre from December 2005. Further, the Government of Arunachal Pradesh, vide Notification dated 10 February 2010, revised the rates of annual lease rent for all central Government undertakings @ ₹ 10 per Sq. metre.

Scrutiny of records of the Director, Land Management, Itanagar (January 2016) revealed that a land measuring 32,738 Sq. metre located at Roing, Lower Dibang Valley District was allotted to State Bank of India (SBI) in March 1988 (21,691 Sq. mt.) and in May 2001 (11,047 Sq. metre) by the Government of Arunachal Pradesh. SBI being a Public Sector commercial organisation, is liable to pay annual lease rent at the applicable rates fixed by the Government from time to time.

Audit, however, noticed that till December 2013, the lease rent payable by SBI was neither assessed by the Land Management Department nor demand notice issued to SBI for payment of lease rent in violations of the extant Rules. The department only in January 2014, issued a demand notice to SBI, Roing of arrear lease rent of ₹ 4.42 lakh for four years period from 2010 to 2013, for 11,047 Sq. metre only out of 32,738 Sq.

<sup>12</sup> 4% on ₹ 8.75 crore = ₹ 0.35 crore  
12.5% on ₹ 8.67 crore = ₹ 1.08 crore  
Total = ₹ 1.43 crore

metre occupied area. No payment was, however, made by SBI (January 2016) and no further action was taken by the Department to recover the same.

Thus, failure of the department to make assessment of lease rent in time and to raise demand to effect resulted in non-realisation of lease rent of ₹ 30.53 lakhs for the period from 1989 to 2015 (**Appendix-4.10.1**). Besides, interest of ₹ 32.39 lakh (@ 15 per cent per annum calculated upto December 2015) leviable on the unpaid lease rent remained unrealized as on date of Audit (June 2016).

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

## State Excise Department

### 4.11 Non-realisation of Establishment Charges

**Establishment charges of ₹ 6.41 lakh in respect of Excise officials posted in different Bonded Warehouses were not realised.**

Rule 74 of the Arunachal Pradesh Excise Rules, 1994 lays down that the Collector shall employ such officers and establishment, as the Excise Commissioner may direct, to the charge of a private warehouse. The licensee of the warehouse shall pay to the Government in advance, cost of establishment in cash equivalent as the Excise commissioner may fix. The cost of the establishment shall include pay and allowances as well as leave salary and pension contributions.

Test check of the register of Establishment Cost of the Superintendent of Excise, Changlang (July 2015) revealed that two Excise officials were posted in six different private warehouses at Bordumsa and Jairampur in different spell during the period April 2014 to June 2015. Establishment Charges for these two officials (Basic Pay + Dearness Allowance + SCA) for the period from April 2014 to June 2015 worked out to ₹ 8.18 lakh. Audit, however, observed that an amount of only ₹ 1.77 lakh was reimbursed (July 2014 to May 2015) leaving a balance of ₹ 6.41 lakhs<sup>13</sup> as outstanding Establishment Charges till July 2015. The Department neither worked out the Establishment Charges nor raised any demand for payment to the Licensees of warehouses.

Thus, due to failure on the part of the Superintendent of Excise, Changlang to raise the demand of Establishment Charges led to non-realisation of ₹ 6.41 lakh.

The case was reported to the Department/Government in July 2016; but reply has not been received (February 2017).

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<sup>13</sup> Outstanding Establishment Charges from six private warehouses:

M/s Mokhom	M/s Supreme Beer	M/s Royal	M/s South Bank	M/s Hornbill Beer	M/s Far East Beer
₹ 0.37 lakh.	₹ 1.14 lakh.	₹ 1.19 lakh.	₹ 1.19 lakh.	₹ 1.39 lakh.	₹ 1.13 lakh.