

Chapter-II

Revenue Sector

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Revenue Sector

2.1 Introduction

2.1.1 Trend of revenue receipts

Tax and non-tax revenue raised by the Government of Uttarakhand during the year 2016-17, the State's share of net proceeds of divisible Union taxes and duties and Grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-2.1.1** below.

Table-2.1.1: Trend of Revenue Receipts

(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenue raised by the State Government					
	• Tax revenue	6,414.25	7,355.34	8,338.47	9,377.79	10,897.31
	• Non-tax revenue	1,602.88	1,316.54	1,110.44	1,219.66	1,345.82
	Total	8,017.13	8,671.88	9,448.91	10,597.45	12,243.13
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties ¹	3,272.88	3,573.38	3,792.30	5,333.19	6,411.57
	• Grants-in-aid	4,457.21	5,075.27	7,005.34	5,303.79	6,234.27
	Total	7,730.09	8,648.65	10,797.64	10,636.98	12,645.84
3.	Total revenue receipts of the State Government (1 and 2)	15,747.22	17,320.53	20,246.55	21,234.43	24,888.97
4.	Percentage of 1 to 3	51	50	47	50	49

Source: Finance Accounts.

During the year 2016-17, the revenue raised by the State Government (₹12,243.13 crore) was 49 per cent of the total revenue receipts. The balance 51 per cent (₹12,645.84 crore) of the receipts was received from the Government of India as share of net proceeds of divisible Union taxes and duties and Grants-in-aid.

2.1.2 The details of tax revenue raised during the period 2012-13 to 2016-17 are given in **Table-2.1.2** below.

¹ Note: For details, please see Statement No.14: Detailed accounts of revenue by Minor Heads in the Finance Accounts (Vol.-II) of Government of Uttarakhand. Figures under the "Share of net proceeds assigned to States" under the Major Heads-0020-Corporation Tax, 0021-Taxes on Income and Expenditure, 0032 - Taxes on Wealth, 0037 - Customs, 0038-Union Excise Duties and 0044-Service Taxes booked in the Finance Accounts under 'A-Tax Revenue' have been excluded from the revenue raised by the State Government and included in the 'State's share of net proceeds of divisible Union Taxes and duties' in the above table.

Table-2.1.2: Details of Tax Revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in actual of 2016-17 over actual of 2015-16
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Taxes on sales and trade	4,088.10	4,289.41	4,847.22	4,902.91	5,459.01	5,464.84	6,209.81	6,105.43	7,323.31	7,153.76	(+) 17.17
2.	State excise	942.15	1,117.92	1,149.25	1,269.29	1,345.40	1,486.66	1,799.33	1,735.39	2,199.27	1,905.54	(+) 9.80
3.	Stamps Duty and Registration Fees	573.95	648.40	640.40	686.71	708.79	714.06	777.22	870.67	1,202.34	777.58	(-) 10.69
4.	Motor Vehicles Tax	275.00	304.29	320.00	368.83	360.00	393.70	435.00	470.87	610.00	556.40	(+) 18.16
5.	Taxes and duties on electricity	60.00	2.71	100.00	64.66	100.00	192.65	175.00	114.76	350.00	188.56	(+) 64.31
6.	Land revenue	8.55	10.59	8.15	21.65	9.05	39.26	17.12	27.88	26.76	159.51	(+) 472.13
7.	Other taxes and Duties on Commodities and Services	17.50	23.13	24.41	23.47	25.01	25.26	27.01	28.37	379.70	126.53	(+) 346.00
8.	Others	15.00	17.80	22.00	17.82	16.00	22.04	23.00	24.42	25.30	29.43	(+) 20.52
	Total	5,980.25	6,414.25	7,111.43	7,355.34	8,023.26	8,338.47	9,463.49	9,377.79	12,116.64	10,897.31	(+) 16.20

Source: Finance Account.

The State's own tax revenue increased from ₹ 6,414.25 crore in 2012-13 to ₹ 10,897.31 crore in 2016-17 (69.89 per cent). The increase was 16.20 per cent over the year 2015-16. The revenue from Taxes on Sales and Trade not only comprised a major share of tax revenue (65.65 per cent) but also registered an increase of 17.17 per cent over the previous year.

The respective Departments reported the following reasons for the variations:

Taxes on sales and trade: The increase of 17.17 per cent over the previous year in the revenue receipt was due to effective control on taxpayer by monitoring units and inflation.

Stamp and Registration Fees: The decrease in the Stamp Duty and Registration Fee of 10.69 per cent during 2016-17 as compared to the year 2015-16, was due to decrease in the registration of instruments as compared to 2015-16.

Tax and duty on electricity: The increase of 64.31 per cent in revenue receipt in 2016-17 over the year 2015-16, was due to better realisation of electricity bills from consumers.

Other departments did not furnish any reason for variation (December 2017).

2.1.3 The details of non-tax revenue raised during the period 2012-13 to 2016-17 are indicated in **Table-2.1.3** below.

Table -2.1.3: Details of Non-Tax Revenue raised

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in actual of 2016-17 over actual of 2015-16
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Power	84.00	150.04	122.55	121.11	122.55	45.01	143.00	168.57	351.30	130.08	(-) 22.83
2.	Interest receipts	35.00	114.76	44.83	51.12	33.10	108.17	51.00	89.22	96.60	71.77	(-) 19.56
3.	Forestry and wild life	296.71	238.20	309.34	362.70	342.06	351.24	415.86	357.47	506.75	318.21	(-) 10.98
4.	Public works	16.16	18.13	9.15	15.51	19.11	28.29	24.92	13.96	27.41	51.08	(+) 265.90
5.	Miscellaneous general services	11.00	25.85	3.55	48.74	21.00	8.26	24.00	(-) 5.50	26.40	(-) 6.16	(-) 12.00
6.	Other administrative services	11.82	38.72	3.73	32.38	19.13	33.50	32.90	43.19	36.19	38.90	(-) 9.93
7.	Police	10.11	10.98	11.21	13.39	11.47	16.51	16.01	11.18	17.61	17.43	(+) 55.90
8.	Medical and Public Health	23.16	30.00	22.10	44.04	24.52	37.78	37.95	76.86	99.27	78.70	(+) 2.39
9.	Co-operation	2.21	1.38	2.23	9.78	2.01	1.17	2.50	2.26	2.75	2.87	(+) 26.99
10.	Major and Medium Irrigation	2.37	7.65	2.42	6.75	2.42	9.22	5.75	7.92	9.70	6.97	(-) 11.99
11.	Non Ferrous Mining and Metallurgical industries	131.00	109.85	151.00	249.99	301.00	223.72	501.00	272.65	551.10	335.17	(+) 22.93
12.	Other Non-tax receipts	584.63	857.32	534.15	361.03	909.09	247.57	813.17	176.38	1,068.34	300.80	(+) 70.54
Total		1,208.17	1,602.88	1,216.26	1,316.54	1,807.46	1,110.44	2,068.06	1,219.66	2,793.42	1,345.82	(+) 10.34

Source: Finance Accounts.

Non-tax revenue showed a decreasing trend during the period 2012-13 to 2014-15. However, it showed an increasing trend from 2015-16 to 2016-17. The increase during 2015-16 and 2016-17 was ₹ 109.22 crore (9.84 per cent) and ₹ 126.16 crore (10.34 per cent) respectively over the previous years.

The respective Departments reported the following reasons for variations:

Co-operation: The main reason for increase of 26.99 per cent of revenue receipt over the previous year was due to increase in deposited arbitration fees, RTI fees and revenue recovery by co-operatives/institutions.

Public Works: The increase of 265.90 per cent in revenue receipt was due to more receipt under “other receipts”.

Forestry and wild life: The decrease of 10.98 per cent in revenue receipt as compared to last year, was due to decrease in transit fee of forest produce and less sale of leesa (Resin).

Other departments did not furnish any reason for variation (December 2017).

2.1.4 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 in some principal heads of revenue amounted to ₹ 7,648.31 crore of which ₹ 1,279.93 crore were outstanding for more than five years as detailed in Table-2.1.4 below.

Table-2.1.4: Arrears of Revenue

Head of revenue	Total Amount outstanding as on 31 March 2017 (₹ in crore)	Amount outstanding for more than five years as on 31 March 2017 (₹ in crore)	Replies of the Department
Taxes/ VAT on Sales and Trade	7,435.65	1,263.87	Recovery of ₹ 653.33 crore (2,456 cases) is subjudice and recovery certificates have been issued for remaining ₹ 6,782.32 crore.
Taxes and Duties on Electricity	177.99	0.00	Regular correspondence is being made with the Uttarakhand Power Corporation Limited for the recovery of pending duty.
Co-operation	3.29	3.28	Demand for recovery has been processed through the district level officer.
Stamp Duty and Registration Fees	21.92	9.7	Recovery of ₹ 13.65 crore is subjudice. In rest of the cases (₹ 8.27 crore), demand for recovery has been processed.
Taxes on Vehicles	8.64	2.44	Nineteen cases (₹ 0.15 crore) are subjudice. In remaining cases, recovery certificates have been issued.
State Excise	0.60	0.60	Two cases amounting to ₹ 0.25 crore are subjudice. In other cases action is being taken to recover the amount (₹ 0.35 crore).
Entertainment Tax	0.22	0.04	Cases amounting to ₹ 0.02 crore are subjudice. In remaining cases, recovery certificates have been issued.
Total	7,648.31	1,279.93	

Source: Departmental figures.

2.1.5 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 the number of cases pending for finalisation at the end of the year as furnished by the Commercial Tax Department in respect of Sales Tax/VAT are given below in **Table-2.1.5** below.

Table-2.1.5: Arrears in Assessments

Head of revenue	Opening balance	New cases due for assessment during 2016-17	Total assessments due	Cases disposed of during 2016-17	Balance at the end of the year	Percentage of disposal (col.5 to 4)
1	2	3	4	5	6	7
Taxes/VAT on sales and Trade	1,07,228	94,061	2,01,289	76,088	1,25,201	37.80

Source: Information provided by the Commercial Tax Department.

The number of new cases due for assessment during 2016-17 exceeded the number of cases disposed of during the year. The Department, therefore, needs to intensify its efforts for early disposal of assessment cases to prevent accumulation of pending cases.

2.1.6 Evasion of tax detected by the Commercial Tax Department

The details of cases of evasion of tax detected by the Commercial Tax Department, cases finalised and the demands for additional tax raised in 2016-17 as reported by the Department are given in **Table-2.1.6** below.

Table-2.1.6: Evasion of Tax

(₹ in crore)

Head of revenue	Cases pending as on 31 March 2016	Cases detected during 2016-17	Total	Number of cases in which assessment/investigation completed and additional demand with penalty raised		Number of cases pending for finalisation as on 31 March 2017
				Number of cases	Amount of demand	
Taxes/VAT on sales and Trade	343	2,174	2,517	1,941	68.56	576
Entertainment Tax	122	382	504	411	0.07	93

Source: Departmental figure.

The number of cases pending at the end of the year has increased in the case of Taxes/VAT on sales and Trade and decreased in the case of Entertainment Tax as compared to the number of cases pending at the start of the year. The amount of recovery made against the demands raised was not intimated by the Department (December 2017).

2.1.7 Refund cases

The number of refund cases pending at the beginning of the year 2016-17, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2016-17, as reported by the Commercial Tax Department, are given in Table-2.1.7 below.

Table-2.1.7: Details of Refund Cases

(₹ in crore)

Particulars	Sales tax / VAT	
	No. of cases	Amount
Claims outstanding at the beginning of the year	737	23.36
Claims received during the year	4,227	54.15
Refunds made during the year	3,936	43.31
Balance outstanding at the end of year	1,028	34.20

Source: Departmental figure.

Section 36 (3) of Uttarakhand VAT Act, 2005, provides for payment of simple rate of interest of nine *per cent* per annum if the refund is made after two months. To avoid interest liability, it is recommended that the State Government may ensure disposal of refund claims in time.

2.1.8 Response of the Departments towards audit

The Accountant General (Audit), Uttarakhand, conducts periodical inspection of Government departments to test-check the transactions and verify the maintenance of important accounts and other records as prescribed in the applicable rules and procedures. The irregularities detected during the inspection and not settled on the spot are incorporated in Inspection Reports (IRs) which are issued to the Heads of the Offices inspected with copies to the next higher authorities for taking corrective action. The Heads of the Offices are required to comply with the observations contained in the IRs, within four weeks from the date of receipts of the IRs. Serious irregularities are reported to the Heads of the Department and the Government.

There were 2,431 paragraphs involving ₹ 583.02 crore relating to 1,091 IRs that remained outstanding at the end of June 2017. The details along with the corresponding figures for the preceding two years are mentioned in **Table-2.1.8** below.

Table-2.1.8: Details of Pending Inspection Reports

Details of IRs	June 2015	June 2016	June 2017
Number of IRs pending for settlement	922	977	1,091
Number of outstanding audit paragraphs	1,985	2,150	2,431
Amount of revenue involved (₹ in crore)	188.66	264.99	583.02

2.1.8.1 The department-wise details of IRs and outstanding audit paragraphs as on 30 June 2017 and the amounts involved are mentioned in **Table-2.1.9** below.

Table-2.1.9: Department-wise details of IRs and paragraphs

Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
Finance	Taxes on Sales, Trade and luxury tax	530	1,403	159.91
	Entertainment	15	14	0.12
Excise	State Excise	87	133	135.38
Transport	Taxes on motor vehicles	118	296	125.57
Stamp and Registration	Stamp and registration fees	309	470	12.60
Forest	Forest	32	115	149.44
<i>Total</i>		1,091	2,431	583.02

The large pendency of the IRs was due to non-receipt of the replies which is indicative of the fact that the Heads of Offices and the Departments did not initiate necessary action to rectify the defects, omissions and irregularities pointed out in the IRs by the Accountant General.

The Government may consider putting in place an effective system for ensuring prompt and appropriate responses to the outstanding audit observations.

2.1.8.2 Departmental audit committee meetings

The Government sets up audit committees to monitor and expedite the progress of the settlement of the IRs and of the paragraphs in the IRs. During the year 2016-17, only one meeting of departmental audit committee was held for settlement of paragraphs related to Forest Department wherein 83 paragraphs involving an amount of ₹ 30.65 crore were settled.

In view of the large number of pending IRs and audit paragraphs, the Government may consider instructing all departments to regularly hold meetings of the audit committees, in consultation with the Accountant General, to expedite their settlement.

2.1.8.3 Response of the Departments/Government to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the Accountant General to the Principal Secretaries/Secretaries of the concerned Departments drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of

non-receipt of the replies from the Departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Nine draft paragraphs including one² Theme Based Compliance Audit were sent to the Principal Secretaries/Secretaries of the respective Departments between February 2016 and July 2017. Out of these nine draft paragraphs, Government reply has been received for one sub-para and one draft paragraph which was incorporated in the paragraph. The remaining eight draft paragraphs have been included in this Chapter without the response of the Government as the replies are awaited (December 2017). However, the response from the concerned auditee units has been received and the same has been suitably incorporated in the report.

2.1.8.4 Follow up on the Audit Reports-summarised position

The Public Accounts Committee (PAC) notified in December 2002 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 *suo-motu* irrespective of whether these are taken up for discussion by PAC and the action taken notes thereon should be submitted by the Government within three months of tabling of the Report for consideration of the Committee. In spite of these provisions, the action taken notes on audit paragraphs of the Reports were being delayed inordinately. Twenty six paragraphs were included in the Audit Reports for the years 2010-11 to 2015-16. The Audit Reports were placed before the State Legislative Assembly between December 2012 and May 2017. The action taken notes from the concerned departments on nine paragraphs were received late with an average delay of seven months in respect of each of these Audit Reports and action taken notes in respect of seventeen paragraphs from five departments had not been received (December 2017).

No paragraph relating to Revenue was discussed in the PAC during the year 2016-17.

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

To analyse the system of redressal of issues highlighted in the IRs by the Government, the action taken on the paragraphs included in the IRs of the last five years for Commercial Tax Department was evaluated.

The summarised position of IRs relating to the Commercial Tax Department issued during the last five years, paragraphs included in these reports, and their status as on 31 March 2017 are tabulated in **Table-2.1.10** below.

Table-2.1.10: Position of IRs (₹ in crore)

Year	Opening Balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value	IRs	Para-graphs	Money Value
2012-13	402	1,023	81.30	37	151	23.79	27	78	11.20	412	1,096	93.89
2013-14	412	1,096	93.89	35	140	21.26	36	156	10.38	411	1,080	104.77
2014-15	411	1,080	104.77	44	135	8.83	17	100	13.12	438	1,115	100.48
2015-16	438	1,115	100.48	46	199	42.23	06	59	2.06	478	1,255	140.65
2016-17	478	1,255	140.65	52	265	44.57	06	94	39.73	524	1,426	145.48

² Theme based Compliance Audit on "Working of Distilleries in the State".

As against 402 IRs with 1,023 outstanding paragraphs at the beginning of 2012-13, the number of outstanding IRs rose to 524 with 1,426 paragraphs at the end of 2016-17 while only 487 paragraphs were cleared during the period 2012-13 to 2016-17.

2.1.10 Action taken on the recommendations accepted by the Departments/ Government

Performance audits conducted by the Accountant General are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These are also discussed in exit conference and the Department's/Government's views are included while finalising the performance audits for the Audit Reports.

Four performance audits on Commercial Tax Department, one on Transport Department, one on Mining Department and one on Stamp and Registration Department featured in the last six years' Audit Reports. A total of 33 recommendations had been made to the Government for consideration in the light of the audit findings. The details of Action Taken Notes (ATNs) on the recommendations are given in **Table-2.1.11** below.

Table-2.1.11: Action Taken on Recommendations accepted by Government

Year of Audit Report	Name of Performance Audit	No. of Recommendation	Status
2009-10	Transition from Sales Tax to VAT	08	ATN received on 07.08.2014 Pending for discussion
2010-11	Cross Verification of Declaration Forms in Inter State Trade and Commerce	08	ATN received on 30.10.2013. Pending for discussion
2011-12	Administration of VAT	07	ATN not received
2013-14	Levy and collection of Taxes on Motor Vehicles Tax	03	ATN not received
	Receipt of Minor Minerals	02	
2014-15	Pendency of cases in the Revenue Department	02	ATN not received
2015-16	Levy and collection of Stamp Duty & Registration Fees	03	ATN not received

2.1.11 Audit Planning

During the year 2016-17, out of total 331 auditable units, 168 units were planned and audited. The units were selected on the basis of risk analysis.

Besides the compliance audit mentioned above, one Theme Based Compliance Audit on "Working of Distilleries in the State" was also taken up to assess the working of distilleries in Uttarakhand during 2014-15 to 2016-17.

2.1.12 Results of audit

Position of local audit conducted during the year

Test-check of the records of 168 units of the Department of Commercial Tax, State Excise, Motor Vehicles, Stamp and Registration, Entertainment Tax, Forest and Mines & Minerals Department conducted during the year 2016-17 revealed under assessment/ short levy/loss of revenue and other irregularities involving ₹ 681.30 crore in 460 paragraphs as categorised in **Table-2.1.12** below.

Table-2.1.12: Category-wise Audit observations

Sl. No.	Categories	No. of paras	Amount (₹ in crore)
Sales Tax/Value Added Tax			
1.	Irregular allowance of exemption	14	2.13
2.	Irregular allowance of concessional rate of tax	119	26.44
3.	Other Irregularities	132	15.97
Total		265	44.54
Mines & Minerals			
1.	Short levy/Non-levy of Royalty, short levy of penalty on illegal mining of minor minerals and other miscellaneous irregularities.	62	92.00
Total		62	92.00
Forest			
1.	Revenue loss due to short extraction of leesa as per prescribed norms, Loss of revenue due to leakage of stored leesa, Non-recovery of interest on delayed deposit of lease rent and other miscellaneous irregularities.	23	36.74
Total		23	36.74
Motor Vehicle Tax			
1.	Non-deposit of amount in Accident Relief Fund, Loss of Revenue due to short deposit of One Time Tax, Loss of Revenue due to non-deposit of trade tax, Loss of Revenue in lieu of fitness fee and other miscellaneous irregularities.	74	109.26
Total		74	109.26
Stamp Duty and Registration Fee and State Excise, Entertainment & luxury tax			
1.	Short levy of stamp duty and registration fee due to consideration of incorrect category of locality	12	0.068
2.	Other Irregularities	23	45.77
3.	“Working of Distilleries in the State”	01	352.92
Total		36	398.76
Grand Total		460	681.30

During the course of the year, the concerned departments accepted under-assessment and other deficiencies of ₹ 8.31 crore involved in 90 paragraphs which were pointed out in audit during 2016-17. The Departments collected ₹ 0.80 crore relating to 83 paragraphs during 2016-17. Out of this, ₹ 0.19 crore in 10 paragraphs pertained to the audit findings pointed out during the current year and the rest pertained to the previous year's findings.

2.1.13 Coverage of the Revenue Chapter

The Revenue Chapter contains nine paragraphs including one Theme Based Compliance Audit³ involving financial effect of ₹ 357.65 crore, out of which, the Departments/ Government have accepted audit observations involving ₹ 1.18 crore in five cases. These are discussed in succeeding paragraphs of Chapter II.

³ Theme based Compliance Audit of “Working of Distilleries in the State”.

COMPLIANCE AUDIT

COMMERCIAL TAX DEPARTMENT

2.2 Non-imposition of penalty

The department did not impose penalty amounting to ₹1.21 crore under Section 10-A of the CST Act as the assessee had purchased such goods on concessional form, for which they were not registered.

Section 8(1) of the Central Sales Tax (CST) Act 1956 prescribes the rates of tax on sales in the course of inter-State trade or commerce. Section 8 (3) (b) of the Act defines goods as the class or classes of goods specified in the certificate of registration of the registered dealer. Further, Section 8 (4) of CST Act states that the provision of Section 8 (1) shall not apply to any sale in the course of inter-State trade or commerce unless the dealer furnishes to the prescribed authority, a declaration in the prescribed manner (Form-C⁴).

Further, as per Section 10 (b), if such goods are not covered by the registration certificate under the CST Act or if as per Section 10 (d), the goods purchased from outside the State at a concessional rate of tax are used for purpose other than that for which the registration certificate is granted, the dealer is liable to be prosecuted under Section 10-A of CST Act. However, if the Assessing Authority (AA) deems it fit, he, in lieu of prosecution, may impose penalty up to one and a half times of the tax payable on the sale of such goods.

Scrutiny of the records of office of one DC⁵ (June 2015) and two AC⁶ (June 2016 and January 2017) revealed that a penalty of ₹ 1.21 crore (as detailed in **Appendix-2.2.1**) was not imposed in the following four cases related to two dealers:

- (1) In first two cases (*Serial Number 1 and 2 of the Appendix-2.2.1*), the dealer purchased the goods at concessional rates by issuing Form-C. However, the goods were not covered under relevant Central Registration Certificates during the periods 2009-11 and 2012-13 respectively, and hence was liable for prosecution as per Section 10 (b) of the Act. Thus, penalty amounting to ₹ 0.16 crore⁷ was to be imposed by the Department.
- (2) In the third case (*Serial Number 3 of the Appendix-2.2.1*), the dealer had purchased demo vehicles at concessional rates, which is not for the purpose of sale. In the fourth case (*Serial Number 4 of the Appendix-2.2.1*), the *Peyjal Nigam*, Almora issued Form-C for goods purchased during 2010-11 to 2012-13 despite direction⁸ (October 2009) issued by Commissioner, Commercial Tax, Uttarakhand that Form-C

⁴ Form issued by purchasing dealer to selling dealer for availing concession rate of tax in interstate trade.

⁵ Deputy Commissioner (Assessment)-IV, Commercial Tax, Dehradun.

⁶ Assistant Commissioner (Assessment)-Sector-I, Commercial Tax, Almora and Assistant Commissioner (Assessment)-Sector-IV, Commercial Tax, Roorkee.

⁷ ₹ (0.04 + 0.07 + 0.05) crore.

⁸ Letter No. 2955/Com. Tax Uttara/Com.anubhag/Com.tax/09-10, dated 16.10.2009.

should not be issued by *Peyjal Nigam* since it is not a manufacturer. The Nigam did not fulfill the requirement of Section 8 (3) (b). As such, in these cases penalty (amounting to ₹ 1.05 crore⁹) was to be imposed by the Department.

The AAs, while finalising assessment of these cases between November 2013 and March 2016, did not detect irregular purchase of goods at concessional rates of tax against Form-C. The omission on the part of AAs resulted in non-levy of penalty of ₹ 1.21 crore. On this being pointed out, the AAs stated (June 2015, June 2016 and January 2017) that the matter would be looked into and action taken would be intimated accordingly.

The matter was reported to the Government (May 2017); Reply was awaited (December 2017).

2.3 *Unauthorised utilisation of Form-11*

Unauthorised use of Declaration Form-11 for purchase of goods, at concessional rates, resulted in loss of revenue amounting to ₹26.61 lakh due to short levy of tax. In addition, penalty of ₹94.95 lakh was also leviable.

Section 4 (7) (b) of the Uttarakhand VAT Act, 2005 provides for grant of Recognition Certificate¹⁰ by the Assessing Authority to a dealer for purchase of goods at concessional rate for use in manufacturing, packaging of manufactured goods or for inter-state trade. As per Section 58 (1) (xxix) of the Act, penalty¹¹ is leviable for furnishing false or wrong form of declaration or certificate. Section 63 of the Act also provides for levy of an amount which would have been payable as tax on such transactions, had such certificate or declaration not been issued.

Scrutiny of the records of three offices¹² of the Commercial Tax Department revealed (May 2015, December 2015 and March 2017) that four purchasers (as detailed in *Appendix-2.3.1*) had issued Form-11¹³ to the sellers during the Assessment Years 2008-09 to 2012-13 for the purchase of goods worth ₹ 2.35 crore, availing concessional rates of tax against these purchases. However, the purchasers were not entitled to purchase the goods on concessional rates by virtue of either not being covered under the respective Recognition Certificates, or not using these goods in manufacture of taxable goods in the State which is a requirement as per Section 4 (7) (b). Hence, the concessional rates of VAT allowed in these cases were irregular, which resulted in loss of revenue amounting to ₹ 26.61 lakh which is required to be recovered. Besides, a penalty

⁹ ₹ (0.12 + 0.93) crore.

¹⁰ A certificate issued to a dealer giving details of goods which can be purchased at concessional rates.

¹¹ A sum not exceeding 40 per cent of the value of goods involved or three times of tax leviable on such goods under provisions of this Act, whichever is higher would be imposed as penalty.

¹² Deputy Commissioner (DC) (Assessment)-II, Commercial Tax, Rudrapur; Assistant Commissioner (AC) (Assessment) Sector-IV, Commercial Tax, Dehradun and Deputy Commissioner (DC) (Assessment)-I, Commercial Tax, Vikas Nagar.

¹³ Manufacturers who are registered with Commercial Tax Department are given special benefit under Section 4 (7) for purchasing raw material *etc* on concessional rate against Form-11.

of ₹94.95 lakh was also leviable on the purchasers due to violation of the extant provisions of the Act.

On this being pointed out the AC, Dehradun stated that notice for recovery¹⁴ of the differential tax and penalty had been issued (June 2016) while the DC, Rudrapur informed (February 2017) that notice for recovery¹⁵ was issued in September 2016. However, no reply was given (March 2017) by DC, Vikas Nagar in the matter. The status of recovery is awaited (October 2017).

The matter was referred to the Government (May 2017); Reply was awaited (December 2017).

2.4 Short levy of tax

Short levy of tax due to incorrect application of tax rates resulted in loss of revenue of ₹89.52 lakh.

Sections-4 (2) (b) (i) (b) and (d) of the VAT Act stipulate four *per cent* rate of tax in respect of goods specified in Schedule II (B) and 12.5 *per cent* rate of tax in respect of goods not specified in any of the schedules. Further, 0.5 *per cent* additional tax on goods specified in Schedule II (B) and one *per cent* additional tax on the goods not specified in any Schedule was also leviable with effect from 01 April 2010. The rates were further revised with effect from 28 May 2012 to five *per cent* in respect of goods specified in Schedule-II B and 13.5 *per cent* in respect of unclassified goods.

Test-check of the records of five Assessing Authorities¹⁶ (AAs), revealed that the AAs while assessing (from March 2014 to May 2015) seven dealers for the assessment years 2009-10 to 2012-13, levied tax at the rate of 4 and 4.5 *per cent* instead of 12.5 and 13.5 *per cent* on goods sold which were not classified in any of the schedules. This resulted in short levy of tax amounting to ₹ 89.52 lakh (as detailed in **Appendix-2.4.1**).

On this being pointed out, DC (A)-II, Rudrapur raised (March and November 2016) demand of ₹ 25,12,956 in three cases¹⁷ out of five cases, DC (A)-III, Rudrapur raised (August 2016) demand of ₹ 5,09,499 in one case and AC (A)-IV, Roorkee raised (September 2017) demand of ₹ 1,77,104 in all two cases¹⁸ while DC (A)-II, Rudrapur (in remaining two cases) and AC (A)-II, III, Haridwar (in two cases) stated that action would be taken after detailed scrutiny of the cases pointed out by audit.

The matter was referred to the Government (June 2017); Reply was awaited (December 2017).

¹⁴ Amount of tax: ₹ 4,27,437 and penalty of ₹ 16,28,332.

¹⁵ Amount of tax: ₹ 5,39,383 and penalty of ₹ 18,99,564.

¹⁶ Deputy Commissioner (Assessment)-II and III CT Rudrapur, Assistant Commissioner.(Assessment), Sector-III CT Haridwar, Sector-IV CT Roorkee, Sector-II CT Haridwar.

¹⁷ ₹ (5,36,419+8,98,666+10,77,871) = ₹ 25,12,956.

¹⁸ ₹ (68,770+1,08,334)=₹ 1,77,104.

2.5 Non-imposition of penalty

The Department did not impose penalty amounting to ₹15.96 lakh for delayed deposition of tax by dealers.

As per Notification dated 31 December 2010 issued by the State Government, dealers having gross turnover of more than ₹ 50 lakh in the preceding year shall make payment of tax on monthly basis by e-payment by 25th of the succeeding month. The notification came into force with effect from 1 April 2011.

Further, Section 58(1) (vii) (b) of the Uttarakhand Value Added Tax Act, 2005 stipulates that if the Assessing Authority is satisfied that any dealer has, without any reasonable cause, failed to pay within the time allowed, the tax due under the provision of the Act, he shall impose by way of penalty, in addition to tax, a sum not less than ten *per cent* of the amount due.

Scrutiny of the records of two Deputy Commissioners¹⁹ revealed that four dealers²⁰ (whose gross turnover was more than ₹ 50 lakh) deposited their admissible tax with a delay ranging between 3 and 39 days without any reasonable justification. However, the Department failed to impose even the minimum penalty (at the rate of 10 *per cent* of the amount of tax due) amounting to ₹ 15.96 lakh on the dealers (as detailed in **Appendix-2.5.1**) as per Section 58 (1) (vii) of the Uttarakhand Value Added Tax Act, 2005.

On this being pointed out, DC (A)-I, Haridwar raised (March 2017) demand in all three²¹ cases and DC (A)-II, Haridwar stated (May 2015 and December 2016) that action would be taken after investigation and intimated to audit accordingly.

The matter was reported to the Government (June 2017); Reply was awaited (December 2017).

2.6 Non-levy of tax and penalty

Non-levy of tax due to non-compliance of the provisions laid down in the Uttarakhand Value Added Tax Act, 2005 and suppression of the actual acquisition value of goods resulted in loss of revenue of ₹29.59 lakh. In addition, penalty of ₹12.57 lakh was also leviable.

Section-4(2) (b) (i) (b) and (d) of the Uttarakhand Value Added Tax Act, 2005 stipulates four *per cent* rate of tax in respect of goods specified in schedule II (B) of the Act and 12.5 *per cent* rate of tax in respect of goods other than those included in any of the schedules. With effect from 01 April 2010, an additional tax at the rate of 0.5 *per cent* and one *per cent* respectively was leviable. In addition, as per Section 58(1) (14) (xiv) of UVAT Act, 2005 as amended vide Notification No.1314/XXXVI (4)/2008 dated 31 March 2008, any dealer who maintains or produces false accounts, registers or

¹⁹ Deputy Commissioners (Assessment) (DC) (A)-I and II Haridwar.

²⁰ TIN No.:05007113617, TIN No.:05009645705, TIN No.:05005891902 and TIN No.: 05002157305.

²¹ ₹ (7,75,253+2,88,495+1,27,115)= ₹ 11,90,863.

documents, would invite a penalty for a sum of not less than fifty *per cent* but not exceeding two hundred *per cent* of the amount of tax which have been avoided.

During scrutiny of the records of office of one DC²² and one AC²³ of Commercial Tax Department, non-levy of tax was noticed due to non-compliance of the above provisions laid down in the Uttarakhand VAT Act, 2005 which resulted in loss of revenue of ₹ 29.59 lakh in the following cases of three dealers:

(a) Test-check of the records of DC (A), CT, Vikasnagar, revealed that a dealer²⁴, during the assessment year 2011-12, had declared in his balance sheet, a sale of ₹ 30.34 lakh and ₹ 7.96 lakh towards sale of Plant and Machinery and old vehicles respectively. Such sale was liable to be taxed at the stipulated rates (4.5 *per cent* tax was to be levied for old/used vehicles as it is listed in Schedule II B and 13.5 *per cent* for Plant and Machinery being unclassified goods) provided in the Act. However, the Assessing Authority (AA) did not levy any tax on such sale which resulted in the non-levy of tax of ₹ 4.46 lakh²⁵.

(b) Further, out of the two assessment cases pertaining to AC (A), CT, Sector-I, Rishikesh (April 2014) pertaining to the Assessment year 2007-08, one²⁶ of the assessee had purchased machinery worth ₹ 70.06 lakh but only an amount of ₹ 26,655 had been shown as addition (Plant and Machinery) in the balance sheet.

Similarly in another case²⁷, an assessee had purchased Plant and Machinery worth ₹ 2.13 crore but had shown an addition (Plant and Machinery) of ₹ 0.82 crore in the balance sheet. Hence, both the dealers had suppressed the actual acquisition value of plant and machinery by ₹ 0.70 crore²⁸ and ₹ 1.31 crore²⁹ respectively which resulted in non-levy of tax at the rate of 12.5 *per cent* on ₹ 2.01 crore³⁰ amounting to ₹ 25.13 lakh. In addition, as per Section 58 (1) (14) (xiv), submission of false accounts also renders both the dealers liable to pay a total penalty of ₹ 12.57 lakh³¹ at a minimum rate of 50 *per cent* of the total tax due on them.

On this being pointed out, DC (A), CT, Vikasnagar stated (March 2016) that required action would be taken after scrutiny of case while AC (A), CT, Sector-I, Rishikesh

²² Deputy Commissioner (Assessment) (DC) (A), Commercial Tax, Vikasnagar.

²³ Assistant Commissioner (Assessment) (AC) (A), Commercial Tax, Sector-I, Rishikesh.

²⁴ TIN No.: 05006812820.

²⁵ ₹ 4.10 lakh (Sale of Plant & Machinery: ₹ 30.34 lakh x 13.5 *per cent*) + ₹ 0.36 lakh (Sale of old Vehicle: ₹ 7.96 x 4.5 *per cent*).

²⁶ TIN No.:05003546830.

²⁷ TIN No.:05003515693.

²⁸ ₹ 70.06 lakh - ₹ 0.26 lakh = ₹ 69.80 lakh = ₹ 0.70 crore (say).

²⁹ ₹ 2.13 crore - ₹ 0.82 crore = ₹ 1.31 crore.

³⁰ ₹ 0.70 crore + ₹ 1.31 crore.

³¹ 50 *per cent* of ₹ 25.13 lakh.

reassessed (July 2015) both the cases and a demand³² was created (without penalty) which was yet to be recovered.

Non-levy of tax due to non-compliance of the provisions laid down in the Uttarakhand VAT Act, 2005 and suppression of the actual acquisition value of goods in the above cases, therefore, resulted in loss of revenue of ₹ 42.16 lakh³³.

The matter was reported to the Government (June 2017); Reply was awaited (December 2017).

EXCISE DEPARTMENT

2.7 Working of Distilleries in the State

The Department did not impose fines amounting to ₹ 346.53 crore due to non-adherence of environmental norms by the distilleries which led to manufacturing of alcohol during rainy season and production over and above the daily installed capacity. Not achieving norms of minimum production, fermentation and distillation efficiency prescribed in the rules and loss of Total Reducing Sugar and molasses during transit resulted in loss of excise revenue of ₹2.67 crore. The Department also failed to impose duty amounting to ₹2.46 crore on higher content of alcohol than prescribed. The incorrect allowance of wastage on re-distillation and adjustment of license fee of Bonded Warehouse Foreign Liquor are other factors which led to loss of excise revenue.

2.7.1 Introduction

The State Excise Department is responsible for the levy and collection of duties and fees on production, manufacture, possession, storage, transport, purchase and sale of liquor. State Excise is regulated under Uttaranchal Excise Act 2002 and the rules framed thereunder. Distilleries are licensed units where alcohol is produced mainly from fermenting and distilling molasses obtained as a byproduct during the manufacturing of sugar. Chemical examination of molasses and alcohol received from a distillery is conducted in the designated Laboratory in Dehradun to ensure production of alcohol as per norms. Excise duty leviable on liquor produced in distilleries forms a major part of excise revenue. Receipts from Excise Duty constitute the second largest source of revenue for the State Government after Commercial Taxes. Apart from excise duty, licensing fee from the distiller for manufacturing, bottling and wholesale vending of liquor also forms part of excise revenue.

Uttarakhand has four distilleries. Audit of records of the Excise Commissioner, all four distilleries³⁴ operating under the jurisdiction of the District Excise Officers (DEOs) of the concerned districts and also the three concerned DEOs³⁵ were test-checked between March 2017 and June 2017 to assess the working of distilleries in the State during the

³² ₹ 25.13 lakh.

³³ Tax: ₹ (4.46+ 25.13) lakh + Penalty: ₹ 12.57 lakh = ₹ 42.16 lakh.

³⁴ Distilleries at Kashipur, Bazpur, Dehradun and Laksar.

³⁵ Udham Singh Nagar, Dehradun and Haridwar.

period 2014-15 to 2016-17. Audit was taken up with a view to ascertain whether the distilleries achieved the minimum operational efficiency as prescribed in the Excise Manual, distilleries adhered to environmental norms; re-distillation wastage was monitored as per extant provisions; and a suitable internal control mechanism existed in the Department for ensuring compliance with Act and Rules.

Results of Audit

2.7.2 Non-adherence to Rules

2.7.2.1 Non-levy of minimum guaranteed duty on higher strength of country liquor and excise duty on foreign liquor

Under Rule 790 framed under the Act, the apparent strength of spirit, as indicated by the hydrometer after addition of colour and flavoring materials, is to be displayed on the label affixed on the sealed bottles.

According to the Government notifications, the rates of minimum guaranteed duty on Country Liquor (CL) were prescribed as ₹ 140, ₹ 170, and ₹ 200 per Bulk Litre (BL) for 36 *per cent* volume by volume (v/v)³⁶ in the years 2014-15, 2015-16 and 2016-17 respectively.

Test-check of records of two distilleries³⁷ revealed that during the period 2014-15 to 2016-17, 4,99,84,094.16 BL³⁸ of country spirit were issued for bottling. It was observed that the labels affixed on these bottles indicated that the alcoholic content of the country liquor was 36 *per cent* v/v. However, the actual strength of the liquor after addition of colour and flavor materials was found to be 36.10 *per cent* v/v as per records of Excise Department. The actual strength was, therefore, higher by 0.1 *per cent* v/v in all cases. Thus, by not imposing guaranteed duty on the basis of actual alcohol content, the Department lost out on guaranteed duty by ₹ 2.31 crore³⁹ (as detailed in *Appendix-2.7.1 A*).

Further, the rates of excise duties were ₹ 110, ₹ 135 and ₹ 155 per Alcoholic Litre (AL) for the year 2014-15, 2015-16 and 2016-17 respectively in case of Indian Made Foreign Liquor (IMFL). In test-check of records of one distillery,⁴⁰ audit observed that 1,10,97,638.28 BL of IMFL were issued for bottling. The labels affixed on these bottles indicated the alcoholic content of the IMFL as 42.8 and 37.5 *per cent* v/v. However, the actual strength of the liquor after addition of colour and flavor materials was observed to be 42.9 and 37.6 *per cent* v/v as per records of Excise Department. The actual strength was higher by 0.1 *per cent* v/v in all cases. As excise duty was not imposed on the basis

³⁶ Volume by volume is a measure of concentration of a substance in solution expressed as the ratio of the *volume* of the solution to the total *volume* of the solution multiplied by 100%.

³⁷ Distilleries at Bazpur and Kashipur.

³⁸ Distillery at Bazpur: 2,28,24,691.20 BL, Distillery at Kashipur: 2,71,59,402.96 BL.

³⁹ Distillery at Bazpur: ₹ 1.06 crore, Distillery at Kashipur: ₹ 1.25 crore.

⁴⁰ Distillery at Kashipur.

of actual alcohol content, there was a short collection of duty by ₹ 0.15 crore (**Appendix-2.7.1 B**).

On this being pointed out, the Government replied (December 2017) that a margin of 0.3 per cent v/v is permitted, under provisions of Rules 790 and 805 framed under the Act, to maintain the strength of liquor. The Government further added that the liquor has been manufactured under this permitted margin and there was no loss of revenue. However, contention of the Government was not relevant as this was not the case of permissible strength but related to presence of higher alcohol content than guaranteed, and additional excise duty was chargeable.

2.7.2.2 Non-achievement of minimum efficiencies and minimum yield of alcohol

Audit noticed that distilleries had not achieved minimum Fermentation Efficiency (FE)⁴¹, Distillation Efficiency (DE)⁴² and minimum yield of alcohol as prescribed under Rule 710 of the Act which resulted in loss of excise revenue of ₹ 2.67 crore as detailed in the **Table-2.7.1** below:

Table-2.7.1: Details of loss of revenue due to non-achievement of minimum FE/DE and minimum yield of alcohol

Sl. No.	Statutory Provision	Nature of deficiency/deviation	Revenue involved (₹ in crore)	Reply of the Department
1.	Rule 710 framed under the Act provides that the distillers shall maintain a minimum fermentation efficiency (FE) of 84 per cent of the fermentable sugars (FS) present in the molasses.	Audit observed that three distilleries ⁴³ should have produced 2,36,12,604 AL ⁴⁴ of alcohol in wash ⁴⁵ during the period 2014-15 to 2016-17 from 2,81,10,242 AL ⁴⁶ of alcohol in 63 batches ⁴⁷ of FS ⁴⁸ by maintaining 84 per cent fermentation efficiency. However, the actual alcohol present in wash was 2,34,36,785 AL ⁴⁹ . This resulted in short production of 1,75,819 AL ⁵⁰ of alcohol. Further, in Distillery at Bazpur, different columns of Fermentation and Distillation register (PD 9A) were found blank and records were not being maintained properly. This had an implication on calculation of alcohol produced, involving excise duty (as detailed in Appendix-2.7.2 A).	2.41	On this being pointed out, the Government (in the case of RBNS, IGL and Doon Valley Distilleries) replied (December 2017) that fermentation efficiency conformed to the stipulated limit of 84 per cent. Further, regarding Bazpur distillery, it was stated (December 2017) by the Government that instructions have been issued for completion of PD 9A Register. However, reply of the Government is not acceptable as fermentation efficiency in 63 batches was found below 84 per cent by audit.

⁴¹ The percentage of fermentable sugars in molasses.

⁴² The per cent of alcohol present in the wash.

⁴³ Distilleries at Laksar, Kuanwala and Kashipur.

⁴⁴ Distillery at Kashipur: 2,20,34,927 AL, Distillery at Laksar: 11,48,140 AL and Distillery at Kuanwala: 4,29,537AL.

⁴⁵ A saccharine solution from which spirit is obtained by distillation.

⁴⁶ Distillery at Kashipur: 2,62,32,056 AL, Distillery at Laksar: 13,66,833 AL and Distillery at Kuanwala: 5,11,353 AL.

⁴⁷ Distillery at Kashipur: 55 batches, Distillery at Laksar: 03 batches and Distillery at Kuanwala: 05 batches.

⁴⁸ The fermentable sugar in molasses contains glucose from which alcohol is prepared in Distilleries.

⁴⁹ Distillery at Kashipur: 2,18,65,296 AL, Distillery at Laksar: 11,45,555 AL and Distillery at Kuanwala: 4,25,934 AL.

⁵⁰ Distillery at Kashipur: 1,69,631 AL, Distillery at Laksar: 2,585 AL and Distillery at Kuanwala: 3,603 AL.

2.	Rule 710 framed under the Act provides that the distillers shall maintain minimum distillation efficiency (DE) of 97 per cent of alcohol present in wash.	Audit observed that in two distilleries ⁵¹ , 3,98,666.29 AL ⁵² of alcohol should have been produced during the period April 2014 to March 2017 from 4,10,996.18 AL ⁵³ of alcohol present in wash. However, the actual production of alcohol was 3,87,207.20 AL ⁵⁴ . This resulted in short production of 11,459.09 AL ⁵⁵ of alcohol involving excise revenue. Further, in Distillery at Bazpur, different columns of Fermentation and Distillation register (PD 9A) were found blank and records were not being maintained properly. This had an implication on calculation of alcohol produced, involving excise duty. (as detailed in Appendix-2.7.2 B).	0.16	On this being pointed out, the Government (in case of RBNS Distillery) claimed (December 2017) that distillation efficiency of the distillery conformed to the parameter of 97 per cent. However, the reply is not acceptable as no evidence was produced in support of the claim. In case of M/s Doon Valley distillery, the Government stated that alcohol percentage in wash as shown in records had clerical mistakes and actual distillation efficiency was as per norms. The reply of the Government is not acceptable as audit observation is based on the records maintained by the Department.
3.	The Act and rules do not provide for any loss of Total Reducing Sugar (TRS) in transit as well as any loss of molasses while transferring them from the sugar factory to the distillery through a pipeline. Rule 710 framed under the Act provides that 52.5 litres of alcohol should be produced per quintal of FS present in molasses.	Audit observed that in two distilleries ⁵⁶ , 20,197.55 quintals ⁵⁷ of molasses were transferred through pipeline from the sugar factory to the distillery during the period from 2014-15 to 2016-17. Audit observed that reduction in percentage of TRS during transportation of molasses ranged between 0.04 and 0.72 per cent. The distillers received 80.82 quintals ⁵⁸ of TRS less from which 3,733.80 AL ⁵⁹ of alcohol, involving excise revenue of ₹ 5.56 lakh ⁶⁰ , could have been produced (as detailed in Appendix-2.7.2 C). Further, it was also revealed that 3,255 quintals of molasses were transferred to one distillery ⁶¹ by Sugar Mill via pipeline. But the distillery received only 3,225 quintals of molasses i.e. there was a short supply of 30 quintals of molasses from which 654.19 AL of alcohol could have been produced involving excise revenue of ₹ 0.88 lakh (as detailed in Appendix-2.7.2 D).	0.06	On this being pointed out, the Government (in case of RBNS Distillery) replied (December 2017) that the loss of TRS and molasses was due to clerical error while in the case of Bazpur Distillery, it was stated that results of any experiment may vary when they are repeated. The reply is not acceptable as data of TRS and molasses is recorded only after measurement and, cannot be set aside by terming them as clerical error and it indicate loss in transit that require investigation. Besides, any amount of loss of molasses and TRS is not permitted under Act and Rules.
4.	Rule 710 framed under the Act provides that 52.5 litres of alcohol should be produced per quintal of FS present in the molasses.	Scrutiny of records in one distillery ⁶² revealed that one composite sample of molasses was sent to the laboratory in July 2016 for determination of sugar content in 10,571 quintals of molasses consumed by the distillery. Based on the report of the laboratory and the prescribed norms, 3,977.87 quintals of	0.04	On this being pointed out, the Government informed (December 2017) that the matter has been referred to Commissioner for penalizing the distillery.

⁵¹ Distilleries at Laksar and Kuanwala.

⁵² Distillery at Laksar: 2,60,798.37 AL and Distillery at Kuanwala: 1,37,867.92 AL.

⁵³ Distillery at Laksar: 2,68,864.30 AL and Distillery at Kuanwala: 1,42,131.88 AL.

⁵⁴ Distillery at Laksar: 2,53,048.90 AL and Distillery at Kuanwala: 1,34,158.30 AL.

⁵⁵ Distillery at Laksar: 7,749.47 AL and Distillery at Kuanwala: 3,709.62 AL.

⁵⁶ Distillery at Laksar and Distillery at Bazpur.

⁵⁷ Distillery at Laksar: 19,255.70 quintal, Distillery at Bazpur: 941.85 quintal.

⁵⁸ Distillery at Laksar: 80.25 quintal, Distillery at Bazpur: 0.57 quintal.

⁵⁹ Distillery at Laksar: 3,707.70 AL, Distillery at Bazpur: 26.10 AL.

⁶⁰ Distillery at Laksar: ₹ 5.53 lakh, Distillery at Bazpur: ₹ 0.03 lakh.

⁶¹ Distillery at Laksar.

⁶² Distillery at Bazpur.

		FS content was present in molasses, out of which 2,08,838.18 AL of alcohol should have been produced. However, only 2,06,101.20 AL was produced by the distillery. This resulted in shortfall of 2,736.98 AL of alcohol involving excise revenue. (2,736.98 AL X ₹ 155)		
Total			2.67	

2.7.2.3 Inadmissible re-distillation wastage

Rule 760 framed under the Act provides that two *per cent* wastage is allowed in the process of re-distillation of spirit subject to certain conditions. The Rule, however, does not provide for any wastage of Rectified Spirit (RS) in manufacturing of ethanol during the process of re-distillation.

Scrutiny of records of one distillery⁶³ revealed that the distillery manufactured 3,51,209.70 AL of ethanol through the process of re-distillation of 3,52,615.50 AL of RS. Distillery claimed wastage of 1,405.80 AL of RS in the process of re-distillation. The Officer in-charge Excise incorrectly allowed the wastage claimed though it was not allowable as per the above rules. This resulted in loss of excise duty of ₹ 2.18 lakh.

On this being pointed out, the Government replied (December 2017) that Rule 760 of Excise Manual provides for 1.5 *per cent* wastage during the process of re-distillation while the wastage at distillery was only 0.4 *per cent* which was within the permissible limit. The reply of the Department was not admissible as the above said rule did not provide for the wastage in the process of manufacture of ethanol by re-distillation.

2.7.2.4 Short levy and adjustment of license fee of Bonded Warehouse Foreign Liquor

The Excise Policy of Uttarakhand for the year 2015-16 had prescribed bond license fee of ₹ eight lakh for sale of 25,001-50,000 cases and ₹ 12 lakh for sale of 50,001-1,00,000 cases of liquor. The Act and rules do not provide for any adjustment of license fee for any consecutive year.

Scrutiny of records of DEO, Udham Singh Nagar, for the year 2015-16 revealed that the Department granted license for Bonded Warehouse Foreign Liquor (BWFL-2)⁶⁴ to a firm of Bazpur for sale of one lakh cases of foreign liquor for which the firm had paid license fee amounting to ₹ 12 lakh. Further, at the time of renewal of the license for the year 2016-17, an amount of ₹ four lakh was adjusted from the paid fee for the year 2015-16 towards the renewal fee owing to the reason that sale of only fifty thousand cases was made by the licensee firm in the year 2015-16. This undue adjustment resulted in short levy of license fee of ₹ four lakh.

On this being pointed out, the Government stated (December 2017) that the warehouse could sell only 50,000 cases, and hence, was chargeable with only ₹ eight lakh. The reply further added that excess license fee of ₹ four lakh deposited by the warehouse was

⁶³ Distillery at Laksar.

⁶⁴ The BWFL-2 license is granted to a person or firm or company who is manufacturer of foreign liquor to establish and run a Bonded Warehouse of Foreign Liquor.

adjusted in the next year. However, reply of the Government was not tenable as adjustment of license fee deposited for a specific year against committed quantity of sale was not permissible.

2.7.2.5 Blockade of revenue

As per Rule 705 framed under the Act, on expiry of license of distiller or if the license is cancelled or suspended, the distiller shall be bound to pay the duty on, and to remove all spirit remaining within the distillery in accordance with the rules in force.

Scrutiny of the information provided by the Office of Excise Commissioner revealed that two Distilleries⁶⁵ stopped production of IMFL in May 2010 and September 2011 respectively. The distillers had 46,785.97 AL⁶⁶ IMFL in their Foreign Liquor (FL-3⁶⁷) stock (April 2017). However, the Department had not taken any action towards disposal of the stock which resulted in blockade of revenue of ₹ 72.52 lakh⁶⁸ to the State Exchequer.

On this being pointed out, the Government stated (December 2017) that the distilleries have PD-2 license in force and revenue would be collected when liquor is issued from FL-3 by the distilleries. Reply of the Government is not acceptable as both the distilleries have stopped production since May 2010/September 2011 and even FL-1 and FL-3 licenses of one distillery⁶⁹ have expired.

2.7.2.6 Non-realisation of compounding fee

Issue of spirit is made on Form PD 25. (Production and Distillation) and an advice in Form PD 26 is sent with PD 25. The receiver of the spirit has to send form PD 26 back to issuer certifying that spirit has been received. As per order⁷⁰ of the Excise Commissioner, Uttar Pradesh, it was prescribed that if the PD 26 Forms are not received back within the specified period of three months, the excise duty at the prescribed rate will be charged from the issuer.

Scrutiny of records of one Distillery⁷¹ revealed that two PD 26 forms, on which 42,547 AL spirit was exported out of the district during August and November 2014, were not received even after the expiry of the prescribed period of three months. The licensee had not furnished the required certificate of delivery till the date of audit (March 2017).

On this being pointed out, the Government accepted (December 2017) that Forms could not be provided to audit at that time and claimed that the Forms have been received. However, reply of the Government is not acceptable as non-return of the Forms to the

⁶⁵ Distilleries at Kuanwala and Bazpur.

⁶⁶ Distillery at Kuanwala: 31,575.35 AL and Distillery at Bazpur: 15,210.62 AL.

⁶⁷ FL-3 is a form by which license is granted for bottling. FL-1 is Manufacturers license for the wholesale vend of foreign liquor.

⁶⁸ Distillery at Kuanwala: 31,575.35 AL @ ₹ 155 = ₹ 48.94 lakh and Distillery at Bazpur: 15,210.62 AL @ ₹ 155 = ₹ 23.58 lakh.

⁶⁹ Distillery at Kuanwala.

⁷⁰ Order No. 1162-90/9-390 dated 15 April 1987.

⁷¹ Distillery at Laksar.

issuer within stipulated time was a clear violation of the above mentioned order and this has resulted in non-levy of excise duty amounting to ₹ 46.80 lakh.

2.7.3 Non-adherence to Environmental Norms

2.7.3.1 Unauthorised production during rainy season

The PD-2 license⁷² for manufacturing of alcohol is granted with the condition that the licensee shall make effective arrangements for the disposal of wastes and effluents from the manufacture of alcohol and shall make all such arrangements as prescribed by the State Government in this behalf under the provision of sub-section (2) of section 12 of the Factories Act, 1948. The sub-section (2) of section 12 of the Factories Act, 1948 provides that the State Government may make rules prescribing the arrangements to be made under sub-section (1)⁷³ or requiring that the arrangements made in accordance with the sub-section shall be approved by such authority as may be prescribed.

According to the specific conditions of environmental clearance accorded by the Ministry of Environment and Forest, Government of India (GoI)/Central Pollution Control Board (CPCB) and Consolidated Consent to Operate and Authorisation (CCA) given by the Uttarakhand Environment Protection and Pollution Control Board (UEPPCB), distilleries will not be operated during the rainy season. If a distillery operates during the rainy season, rain water gets mixed with the spent washes which may either leachate or overflow and contaminate the surface and sub-surface water bodies. Section-15 of the Environment Protection Act, 1986 stipulates that whoever fails to comply with or contravenes any of the provisions of the Act, or the Rules made or orders issued thereunder, shall, in respect of each contravention, be punishable with imprisonment for a term which may extend to five years or with fine which may extend to ₹ one lakh, or with both. Further, as per Section 60 (1) (d) of the State Excise Act, whoever, in contravention of the Act or of any license, permit or pass obtained thereunder, works any distillery will be punishable with imprisonment which may extend to two years and with fine of ₹ 5,000 or not less than 10 times of the duty due, whichever is greater.

Test-check of records of three distilleries⁷⁴ revealed that on the basis of CCA given by UEPPCB, the distilleries obtained the PD-2 license. The distilleries, however, in contravention of the provisions of the Act, unlawfully produced 17.76 lakh⁷⁵ AL of Alcohol during rainy season (July to September) in the period 2014-17 for which a fine of ₹ 257.84 crore⁷⁶ (as detailed in **Appendix-2.7.3**) was leviable. Further, contravention

⁷² For issuing License to distillers to work in a premises owned by them other than Government.

⁷³ Effective arrangements shall be made in every factory for the treatment of wastes and effluents due to the manufacturing process carried on therein, so as to render them innocuous, and for their disposal.

⁷⁴ Distilleries at Laksar, Bazpur and Kuanwala.

⁷⁵ Distillery at Laksar: 9.07 lakh AL, Distillery at Kuanwala: 0.48 lakh AL and Distillery at Bazpur: 8.21 lakh AL.

⁷⁶ Distillery at Laksar: ₹ 137.52 crore, Distillery at Kuanwala: ₹ 7.49 crore and Distillery at Bazpur: ₹ 112.83 crore.

of relevant provisions of Environment Protection Act, 1986 also attracted an additional fine of up to ₹ 25 lakh⁷⁷ (as detailed in *Appendix-2.7.3*).

On this being pointed out by audit, the Government replied (December 2017) that Excise Act did not have provisions for ceasing operations of distilleries in rainy season. Besides, it was also added that enforcement of instructions of CPCB/UEPPCB was their own responsibility.

Reply of the Government shows both, disregard for accountability and disregard for environmental norms on its part. The reply does not have merit for consideration as conditions of PD-2 license clearly express that all arrangements would be made for the disposal of wastes and effluents from the manufacture of alcohol as prescribed by the State Government and penalty of ₹ 258.09 crore (as detailed in *Appendix-2.7.3*) was required to be levied under Section 60 (1) (d) of the State Excise Act along with provisions all other Acts/rules.

2.7.3.2 Production in excess of daily production capacity

As per Section 60 of the Act, unlawful manufacturing by any distillery will be punishable with imprisonment which may extend to two years and with fine of ₹ 5,000 or not less than 10 times of the duty due, whichever is higher. The CCA as given by the UEPPCB under Environment Protection Act, 1986, also provides for limits on daily production by the distilleries.

If a distillery is operated beyond its permitted daily production capacity, the treatment facility associated and synchronised with the production capacity will not work effectively and pollutants may get discharged into water bodies, adversely affecting the environment. As per the directions issued (May 2006) by the Ministry of Environment, GoI in its Environmental Clearance accorded to a Distillery at Laksar, and the CCA issued by the UEPPCB for the years 2014-15, 2015-16 and 2016-17 to this distillery, the production was restricted to 60 kilolitres per day (KLPD). As per order⁷⁸ of the Excise Commissioner, Uttar Pradesh, it was prescribed that the distilleries manufacturing in excess of their daily installed capacity (based on annual licensed capacity) will be dealt with as per Rules.

Scrutiny of records of distillery at Laksar revealed that the distillery unlawfully produced (from 2014-15 to 2016-17) 2.74 lakh BL (2.68 lakh AL) of alcohol in excess of its daily installed capacity for which a fine of ₹ 41.14 crore was leviable (as detailed in *Appendix-2.7.4*).

Further, in its directions issued (September 2005) to Distillery at Bazpur, the CPCB had restricted the production of distillery to 20 KLPD and the same had been communicated by the officer-in-charge posted at distillery to the Excise Commissioner while renewal of its P.D. 2 license in 2014-15, 2015-16 and 2016-17. However, the distillery unlawfully produced (from 2014-15 to 2016-17) 3.50 lakh BL (3.33 lakh AL) of alcohol in excess of

⁷⁷ Distillery at Laksar: ₹ 10.00 lakh, Distillery at Kuanwala: ₹ 2.00 lakh and Distillery at Bazpur: ₹ 13.00 lakh.

⁷⁸ Order No. 8639-8851/9/233 (Bazpur)/ALD dated 27 November 1996.

its daily installed capacity for which a fine of ₹ 46.61 crore was leviable (as detailed in *Appendix-2.7.4*).

Further, on account of contravention of provisions of Environment Protection Act, 1986, a fine of up to ₹ 69 lakh⁷⁹ (as detailed in *Appendix-2.7.4*) was also leviable on above two distilleries.

On this being pointed out by audit, the Government replied (December 2017) that alcohol was produced within the annual production limit as per Production and Distillation (PD-2) license. However, the reply overlooks the daily limits prescribed under the instructions of the GoI as well as those of the Excise Commissioner, and hence, was not acceptable.

2.7.4 Lack of stipulated checks and Internal Controls

2.7.4.1 Testing of samples of Molasses

Rule 710 framed under the Act provides for the officer in-charge of the distillery to draw composite samples of molasses consumed in three successive out-turns and divide it into three equal parts. The distiller shall send one part to the Chemical Examiner of the State Government or any officer authorised by the Excise Commissioner or agency authorised by the State Government for determination of the percentage of FS. If the testing of samples of molasses is not carried out, this will result in non-determination of percentage of FS present in molasses and minimum quantity of alcohol which should have been produced by the distillers on the basis of minimum recovery as prescribed in rule.

In the test-check of records of one distillery⁸⁰, audit observed that 26 samples of molasses were not sent for testing during the period from 2014-15 to 2016-17 and reports of 18 samples were not received by the distillers. In the case of three distilleries⁸¹, in the year 2016-17, reports of 11 batches of molasses were not received by the distillers. The reports of the samples of molasses sent to laboratory by all the distillers were not received even after expiry of 14 days.

The Government stated (December 2017) that reports of most of the samples sent by one distillery (M/s RBNS distillery) have been received and instructions have been issued to the Department officials to provide remaining reports. The fact remains that Audit could not ascertain the recovery of alcohol in above cases (*i.e.* 52.5 litre of alcohol per quintal of fermentable sugars present in the molasses consumed for production of alcohol) as either the samples were not sent to laboratory or related laboratory reports were not received by the distillers.

2.7.4.2 Non-supply of excise locks and excise instruments

Rules 735 and 736 framed under the Act provide that the charging and discharge pipes of stills, all spirit safes, all manddoors, cocks or other openings in stills, spirit vats, spirit

⁷⁹ Distillery at Laksar: ₹ 27 lakh and Distillery at Bazpur: ₹ 42 lakh.

⁸⁰ Distillery at Laksar.

⁸¹ Distilleries at Kuanwala, Bazpur, and Kashipur.

receivers and other receptacles for spirit shall be secured by an excise lock of a pattern approved by the Excise Commissioner. The doors of all rooms which are used for the storage of spirit shall be provided with double lock, the key of which should not be interchangeable, and of which one lock should be an excise lock in the charge of the inspector and the other a distillery lock in the charge of the proprietor. Further, Rule 817 provides that a Stock register of Government property in Form PD 4 must be maintained and kept in distillery. The details of excise locks and each excise instrument *i.e.* hydrometers, saccharometers, thermometers, alcoholmeters and test glasses, *etc.* must be entered in the register.

From the information provided by all the four distilleries⁸², it was noticed that as against the required numbers of fifty four excise locks, in three distilleries⁸³ no locks were provided and in one distillery ten locks were provided. As regards instruments, no instruments were provided in Laksar. The distillers were using their own locks and instruments. Therefore, the possibility of pilferage of spirit and alcohol cannot be ruled out.

The Government informed (December 2017) that concerned excise officers had placed demand for excise locks and other instruments.

2.7.4.3 Non-compliance of Policy

The Excise Policy 2015-16 of the State provides for mixing of extract of fruits produced in the State with country liquor. The Distiller has to file an affidavit/certificate stating that the fruits used were products of Uttarakhand only. Further, the Excise Policy 2015-16 provides for 1/4th supply of country liquor by all the distilleries at the State level.

From the information provided for the period 2015-16 by all the distilleries and office of the Excise Commissioner, it was revealed that the distillers were not mixing extract of fruits with country liquor. Further, the Department did not give any direction or fixed targets for distilleries regarding 1/4th supply of country liquor at State level.

The Government accepted (December 2017) audit observation.

2.7.4.4 Non-maintenance of G-6 Register

All the receipts of the Excise Department are entered in G-6 register. The Laboratory under the Department is also required to maintain a G-6 register and verify/reconcile its receipts.

In the test-check of records of Office of Excise Commissioner, audit noticed that the laboratory was conducting chemical examination of samples of molasses and alcohol received from distilleries for which testing fees were being paid by the distilleries through challans. These transactions were to be entered in G-6 register. However, G-6 register was not being maintained by the laboratory. Due to non-maintenance of the G-6 register by the laboratory, audit was unable to verify the correctness of the remittance of Government receipts into the Government account.

⁸² Distilleries at Laksar, Bazpur, Kuanwala and Kashipur.

⁸³ Laksar, Bazpur and Kashipur.

The Government accepted (December 2017) audit observation and stated that required arrangements are being made for maintenance of G-6 Register at district level.

2.7.4.5 Inspection by the Assistant Excise Commissioner (or District Excise Officer)

As per the orders of Excise Commissioner, Uttarakhand, Dehradun dated 04.01.2004, the Assistant Excise Commissioner (AEC) or DEO has to conduct inspections according to the prescribed standards.

Audit scrutiny of the records of the DEOs⁸⁴ revealed that during the period from 2014-15 to 2016-17, the AECs (or DEOs) did not conduct inspections of distilleries, bonded warehouses or Sugar Mills falling under their jurisdiction which resulted in instances of lack of internal controls and non-compliance of guidelines as discussed in above paragraphs.

The Government accepted (December 2017) audit observation and stated that instructions have been issued for conducting inspections as required under norms.

Conclusion

The Department did not impose duty on higher content of alcohol as prescribed and no action was initiated on loss of Total Reducing Sugar and molasses during transit. The distilleries failed to achieve norms of minimum production, fermentation and distillation efficiency. Besides, it also incorrectly allowed wastage on re-distillation and adjustment of license fee of BWFL-2. Further, the Department failed to impose fines on distilleries for production of alcohol during rainy season and non-adherence to environmental norms. It was also noticed that essential security measures like excise locks were not provided to distilleries by the Department.

GEOLOGY AND MINING DEPARTMENT AND STAMP AND REGISTRATION DEPARTMENT

2.8 Short levy of stamp duty

Short levy of stamp duty due to non-application of correct rates resulted in loss of revenue of ₹14.05 lakh.

Section 33 (1) of the Indian Stamp Act (IS Act), 1899 stipulates that every person having authority to receive evidence, and every person in charge of a public office, except an officer of police, before whom any instrument, chargeable, in his opinion, with duty, is produced or comes in the performance of his functions, shall, if it appears to him that such instrument is not duly stamped, impound the same. Further, as per Circular issued (September 2013) by the Inspector General, Registration, the person so impounding the instrument shall send copy of the document to the Collector. Section 35 further strengthens the above arrangement by providing that instruments not duly stamped shall be inadmissible in evidence. Article 35 of Schedule 1B of the IS Act and Section 17 (1) (d) of Indian Registration Act (IR Act), 1908 provides for payment of stamp duty

⁸⁴ DEO, Haridwar, DEO, Udham Singh Nagar and DEO, Dehradun.

on leases for terms exceeding one year and up to 30 years and compulsory registration of such leases respectively.

(a) Scrutiny of the records of the District Mining Officer (DMO), Dehradun and DMO, Chamoli revealed that rent agreements submitted by two screening plant owners (Dehradun) and three stone crusher owners (Chamoli) were not stamped as per the applicable rates⁸⁵. Instead, the rent agreements were executed on stamps valued at ₹ 50 (one agreement) and at ₹ 100 (20 agreements) only. The DMOs, instead of impounding these rent agreements as provided for in the aforementioned rules, allowed these agreements which led to loss of stamp duty valuing ₹ 5.92 lakh (as detailed in *Appendix-2.8.1*) to the exchequer.

On this being pointed out, the DMOs stated that the departmental rules and policies do not have any provision regarding calculation of stamp duty. However, the reply is not acceptable as chargeability of instruments comes under the purview of the Indian Stamp Act, 1899 and the DMOs, by virtue of being authorised to receive the instruments, were responsible to ensure that these instruments were duly stamped.

(b) Scrutiny of the records of DMO, Chamoli revealed that two lease deeds, one for a period of one year and nine months and the other for the period of one year and eight months, were not stamped as per the actual applicable rates⁸⁶. Instead, these deeds were short stamped leading to short payment of ₹ 8.13 lakh (as detailed in *Appendix-2.8.2*) in stamp duty to the Government.

On being pointed out, the DMO, Chamoli stated that the lease instruments are registered by the sub-registrars of the Stamp and Registration Department and the matter of short payment of stamp duty should be taken up with them. However, the DMO cannot be absolved of his duty to impound/disallow short stamped lease deeds presented to him as provided in the above mentioned rules.

The above cases were reported to the Government (July 2017); Reply was awaited (December 2017).

MINING DEPARTMENT

2.9 Short levy of penalty

Application of incorrect rates in compounding offences of illegal mining/transport of minerals resulted in short levy of penalty of ₹29.75 lakh.

Rule 13 (2) (b) of Uttarakhand Minerals (Prevention of Illegal Mining, Transportation and Storage) (Amendment) Rules, 2015 provides for levying of penalty of ₹ 25,000 on people found guilty of illegal mining/transportation of minor minerals. The penalty was subsequently revised (31 July 2015) to ₹ 2.00 lakh.

⁸⁵ Average annual rent ranging between ₹ 9,930 and ₹ 30,000 per year.

⁸⁶ Two *per cent* of three times of the annual lease rent.

Test-check of the records of the District Mining Officer (DMO), Dehradun revealed that 17 vehicles were seized by police for offences related to illegal mining during July and August 2015. The penalty was recovered from them at the pre revised rates of ₹ 25,000, instead of ₹ 2.00 lakh. Hence, the penalty was short levied which resulted in a loss of revenue of ₹ 29.75 lakh (as detailed in *Appendix-2.9.1*).

On this being pointed out, the DMO, Dehradun replied (November 2016) that the compounding of the said offences was carried out by the District Magistrate who was authorised under Rule 75 of Uttarakhand Minor Minerals Concession Rules-2001 for compounding such offences. Thus application of incorrect rates by the District Magistrate in compounding offences of illegal mining/transport of minerals, resulted in short-levy of penalty of ₹ 29.75 lakh.

The matter was referred to the Government (April 2017); Reply was awaited (December 2017).

2.10 Short/non-levy of royalty

Non-application of revised rates on mining licenses and non-detection of brick kilns led to short/non-levy of royalty of ₹39.23 lakh.

(i) Rule 54 of the Uttarakhand Minor Mineral Concession Rules-2001 provides for deposit of royalty by a holder of license for mining minor minerals, as applicable at the time of approval of license, within 15 days of intimation regarding approval of such license. Rates of soil and RBM (River Bed Material) were ₹ 50 per ton and ₹ 194.50 per cubic metre respectively with effect from 26 February 2016 whereas their earlier rates were ₹ 8 per cubic metre and ₹ 90 per cubic metre respectively.

Test-check of the records of District Mining Officer (DMO), Dehradun revealed that royalty was short levied in seven cases of mining licenses as lower rates were applied instead of revised higher rates applicable at the time of grant of license in March 2016. This resulted in loss of royalty amounting to ₹ 30.88 lakh (as detailed in *Appendix-2.10.1*).

On being pointed out, DMO, Dehradun attributed (October 2016) short levy of royalty to forwarding of proposals for grant of license before revision of rates on 26 February 2016.

The reply is not acceptable as the revised rates of royalty were required to be applied, as evident from aforementioned rule, where licenses were approved after revision of rates.

(ii) Composition scheme⁸⁷ (October 2009) for payment of royalty on soil used by brick kilns required that number of working brick kilns be determined by the Department by collecting information pertaining to brick kilns registered in the Commercial Tax Department, Pollution Control Board and from information submitted by the *Patwaris*.

Test-check (October 2016) of the records of the District Mining Officer (DMO), Dehradun revealed that the above mentioned mandatory exercise for identification of

⁸⁷ In this scheme the royalty amount is fixed on the basis of production capacity of the brick kilns.

working brick kilns was not undertaken by the Department. This led to non-detection of working brick kilns (two in 2012-13, two in 2013-14, four in 2014-15 and three in 2015-16) as evident from the information collected by audit from the Commercial Tax Department. Audit scrutiny of records⁸⁸ revealed that no royalty was recovered from the non-detected brick kilns in the above mentioned years. This resulted in non-levy of royalty, as applicable⁸⁹, to the tune of ₹ 8.35 lakh during 2012-13 to 2015-16 (as detailed in **Appendix-2.10.2**).

The Government (May 2017) in respect of Composition scheme replied that since brick kiln owners did not apply for this scheme during the period in question; the District Magistrate did not issue mining license. The reply is not justified because as per condition 9 of the Composition scheme it was the responsibility of the Government to obtain certified information of working brick kilns registered from the Commercial Tax Department/Pollution Control Board and on the basis of enquiry from the *Tehsil*. Non-application of revised rates on mining licenses and non-detection of brick kilns, therefore, led to short/non-levy of royalty of ₹ 39.23 lakh⁹⁰.

The matter (in case of first part of the paragraph) was referred to the Government (April 2017); Reply was awaited (December 2017).

⁸⁸ Register related to deposit of royalty.

⁸⁹ The amount of charges ranged between ₹ 69,000 and ₹ 81,600 per annum on the basis of production capacity of brick kiln.

⁹⁰ ₹ (30.88+8.35) lakh.