

## PREFACE

This Report for the year ended 31 March 2010 has been prepared for submission to the Governor under Article 151 (2) of the Constitution.

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. This Report presents the results of audit of receipts comprising Trade Tax, state excise, taxes on motor vehicles, stamp duty and registration fees and other tax and non-tax receipts of the State.

The cases mentioned in the Report are among those which came to notice in the course of test audit of records during the year 2009-10 as well as those which came to notice in earlier years but could not be included in the previous years' reports.

## OVERVIEW

This Report contains 20 paragraphs including three reviews relating to non/short levy of tax, penalty, interest etc. involving ₹ 69.51 crore. Some of the major findings are mentioned below:

### I. General

The total receipts of the Government of Uttar Pradesh for the year 2009-10 were ₹ 96,420.95 crore against ₹ 77,830.73 crore during 2008-09. The revenue raised by the State Government amounted to ₹ 47,478.69 crore comprising tax revenue of ₹ 33,877.60 crore and non-tax revenue of ₹ 13,601.09 crore. The receipts from the Government of India were ₹ 48,942.26 crore (State's share of divisible Union taxes: ₹ 31,796.67 crore and grants-in-aid: ₹ 17,145.59 crore). Thus, the State Government could raise only 49 *per cent* of the total revenue. Taxes on sales, trade, etc. (₹ 20,825.18 crore) and miscellaneous general services (₹ 8,075.13 crore) were the major source of tax and non-tax revenue respectively during the year 2009-10.

**(Paragraph 1.1)**

Inspection reports numbering 9,287 issued upto 31 December 2009 containing 22,484 audit observations with money value of ₹ 3,757.81 crore had not been settled upto June 2010.

**(Paragraph 1.2)**

Test check of the records of 1,340 units of Trade Tax, State excise, Motor vehicles, Forest and other departmental offices conducted during the year 2009-10 revealed under assessments/short levy/loss of revenue aggregating ₹ 662.66 crore in 4,137 cases. During the course of the year, the departments concerned accepted under assessments and other deficiencies of ₹ 12.78 crore involved in 660 cases of which 34 cases involving ₹ 14.92 lakh were pointed out in audit during 2009-10 and the rest in the earlier years. The departments collected ₹ 6.01 crore in 213 cases during 2009-10.

**(Paragraph 1.5.1)**

### II. Trade Tax/VAT

A performance review on **Transition from Trade Tax to VAT** revealed :

- Tax Audit wing of the Department is not functional even after the lapse of three years of VAT implementation.

**(Paragraph 2.9.9)**

- Dealers, having turnover of ` one crore and above are required to submit the Annual Audited Accounts whereas according to provisions of the Income Tax Act, all the dealers, having turnover of ` 40 lakh and above keep an audited annual accounts.

**(Paragraph 2.9.12.2)**

- Abolition of all the 83 check posts, working at strategic points, round the clock resulted in non confirmation of the delivery of the Transit passes at the exit point of the check posts by the vehicles coming from outside the states and bound for any other place outside the state.

**(Paragraph 2.9.13)**

- The State Legislature introduced levy of additional tax under the Uttar Pradesh Value Added Tax Act, 2008 with effect from 1 June 2009, though the White Paper on Value Added Tax (VAT) specifically discouraged levy of additional tax.

**(Paragraph 2.9.15)**

- Verification of deposits by the dealers is still being done by the Deputy Commissioner (Administration) whereas as per VAT rules it is to be done by the concerned Assessing Authorities.

**(Paragraph 2.9.17)**

**Other audit observations**

- Non/short levy of tax due to application of incorrect rate of tax and misclassification of goods resulted in non/short levy of tax of ` 1.40 crore.

**(Paragraph 2.11.1)**

- Non-imposition of penalty and non-charging of interest amounting to ` 1.97 crore.

**(Paragraph 2.11.2)**

- Irregular grant of exemption to the dealer by the department resulted in undue financial benefit of ` 1.30 crore.

**(Paragraph 2.14)**

**III. State Excise**

128 licensees of country liquor, who had short lifted 27.92 lakh bulk litre of minimum guaranteed quota, were liable to pay excise duty of ` 1.31 crore.

**(Paragraph 3.8)**

Due to loss of Total Reducing Sugar (TRS) in transit, Government suffered loss of ` 2.92 crore.

**(Paragraph 3.10)**

#### **IV. Taxes on Vehicles, Goods and Passengers**

A review on **Working of Transport Department** revealed :

- There was short levy of additional tax of ` four crore on passenger vehicles of other States.

**(Paragraph 4.5.14)**

- Short assessment of additional tax on stage carriages resulted in short realisation of ` 8.72 crore.

**(Paragraph 4.5.15)**

- Non-levy of tax on laden weight of vehicles resulted in non-realisation of tax of ` 2.18 crore and penalty of ` 54.53 lakh.

**(Paragraph 4.5.16)**

- Non-issue of certificate of fitness resulted in non-realisation of fitness fee of ` 2.95 crore and penalty of ` 5.77 crore.

**(Paragraph 4.5.17)**

- Non-creation of Accident Relief Fund (ARF) resulted in non-credit of a sum of ` 78.24 crore.

**(Paragraph 4.5.22)**

#### **V. Stamp Duty and Registration Fee**

Short levy of stamp duty of ` 59.95 lakh due to incorrect valuation in 10 cases.

**(Paragraph 5.8)**

#### **VI. Other Tax and Non-tax Receipts**

A review on **Receipts from Forest Department** revealed :

- The volume factor of the Eucalyptus trees having diameter of more than 45 cm was not decided simultaneously with the change of felling cycle. This resulted in short levy of royalty of ` 4.94 crore.

**(Paragraph 6.2.10)**

- Lack of coordination between Forest and Mining Departments resulted in loss of transit fees amounting to ` 238.53 crore.

**(Paragraph 6.2.12)**

- Loss of revenue due to removal/closure of barriers amounting to ` 42.84 crore.

**(Paragraph 6.2.14)**

- Non-levy of transit fee by the divisions on the minerals used in construction of roads by the National Highway Authority of India resulted in loss of revenue of ` 29.62 crore.

**(Paragraph 6.2.16)**

#### **Other audit observations**

- Non-levy of centage charges on deposit works resulted in short realisation of revenue of ` 92.54 lakh.

**(Paragraph 6.4)**

- The levy of user charges at the pre-enhanced rates rather than the revised rate resulted in short levy of user charges of ` 86.69 lakh.

**(Paragraph 6.6)**

## CHAPTER-I GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Uttar Pradesh during the year 2009-10, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

( in crore)

Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>1. Revenue raised by the State Government</b>						
	• Tax revenue	18,857.90	22,997.97	24,959.32	28,658.97	33,877.60
	• Non-tax revenue	2,930.32	6,532.64	5,816.01	6,766.55	13,601.09
	<b>Total</b>	<b>21,788.22</b>	<b>29,530.61</b>	<b>30,775.33</b>	<b>35,425.52</b>	<b>47,478.69</b>
<b>2. Receipts from the Government of India</b>						
	• State's share of divisible Union taxes	18,203.13	23,218.31	29,287.74	30,905.72	31,796.67 <sup>1</sup>
	• Grants-in-aid	5,357.80	7,850.60	8,609.40	11,499.49	17,145.59
	<b>Total</b>	<b>23,560.93</b>	<b>31,068.91</b>	<b>37,897.14</b>	<b>42,405.21</b>	<b>48,942.26</b>
<b>3.</b>	<b>Total receipts of the State (1 and 2)</b>	<b>45,349.15</b>	<b>60,599.52</b>	<b>68,672.47</b>	<b>77,830.73</b>	<b>96,420.95</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>48</b>	<b>49</b>	<b>45</b>	<b>46</b>	<b>49</b>

The above table indicates that during the year 2009-10, the revenue raised by the State Government was 49 per cent of the total revenue receipts ( ₹ 96,420.95 crore) against 46 per cent in the preceding year. The balance 51 per cent of receipts during 2009-10 was from the Government of India.

<sup>1</sup> For details, please see Statement No. 11 - detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Uttar Pradesh for the year 2009-10. Figures under the major heads 0020 - Corporation tax, 0021 - Other taxes on income and expenditure, 0028 - Taxes on income other than corporation tax, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - Share of net proceeds assigned to States booked in the Finance Accounts under 'A - Tax revenue' have been excluded from revenue raised by the State and included in 'State's share of divisible Union taxes' in this statement.

1.1.2 The following table presents the details of tax revenue raised during the period 2005-06 to 2009-10:

( ` in crore)

Sl. No	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Increase (+) or decrease (-) in 2009-10 with reference to 2008-09	Percentage of increase or decrease with reference to 2008-09
1.	Commercial tax/VAT	11,284.67	13,278.82	15,023.10	17,482.05	20,825.18	3,343.13	19.12
2.	State excise	3,088.54	3,551.25	3,948.40	4,720.01	5666.06	946.05	20.04
3.	Stamp duty and registration fees	2,996.78	4,513.67	3,976.68	4,138.27	4562.23	423.96	10.24
4.	Taxes on vehicles	965.20	1,017.60	1,145.84	1,124.66	1403.50	278.84	24.79
5.	Taxes and duties on electricity	182.26	193.92	206.65	216.72	272.16	55.44	25.58
6.	Land revenue	108.69	187.52	392.53	549.28	663.14	113.86	20.73
7.	Other taxes and duties on commodities and services	114.76	131.57	137.50	140.58	193.34	52.76	37.53
8.	Taxes on goods and passengers	105.19	108.70	109.65	266.49	271.05	4.56	1.71
9.	Other (hotel receipts, corporation tax, etc.)	11.81	14.92	18.97	20.91	20.94	0.03	0.14
	<b>Total</b>	<b>18,857.90</b>	<b>22,997.97</b>	<b>24,959.32</b>	<b>28,658.97</b>	<b>33,877.60</b>	<b>5,218.63</b>	<b>18.21</b>

The following reasons for variation were reported by the concerned departments:

**Commercial Tax/VAT:** The increase in revenue collection was due to implementation of VAT.

**Stamp and Registration:** The increase in revenue collection was due to rigorous and continuous monthly monitoring, enforcement of stamp laws and rules, disposal of pending stamp cases and recovery of stamp dues.

**Taxes on Vehicles:** The increase in revenue collection was due to implementation of the new Taxation Act, 2009 in October 2009 and increase in the number of newly registered vehicles.

The other departments did not inform (October 2010) the reasons for variation, despite being requested (August 2010).

**1.1.3 :** The following table presents the details of the non-tax revenue raised during the period 2005-06 to 2009-10:

( ₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Increase (+) or decrease (-) in 2009-10 with reference to 2008-09	Percentage of increase/decrease with reference to 2008-09
1.	Misc. general services	75.02	2,281.23	1,153.53	1,698.79	8,075.13	6,376.34	375.35
2.	Interest receipts	457.94	828.86	1,247.84	963.87	603.66	(-)360.21	(-)37.37
3.	Forestry and wild life	161.98	212.37	294.80	271.92	271.29	(-)0.63	(-)0.23
4.	Medium irrigation	53.78	143.29	319.43	260.91	240.21	(-)20.70	(-)7.93
5.	Education, sports, art and culture	934.81	814.96	1,217.62	1,080.61	2,339.86	1,259.25	116.53
6.	Other administrative services	99.96	99.71	146.10	145.04	147.19	2.15	1.48
7.	Non-ferrous mining and metallurgical industries	354.60	345.34	395.20	427.31	604.97	177.66	41.58
8.	Police	96.66	209.60	147.17	160.78	119.34	(-)41.44	(-)25.77
9.	Crop husbandry	40.84	33.96	51.03	49.64	37.60	(-)12.04	(-)24.25
10.	Social security and welfare	14.23	15.77	19.73	34.06	39.69	5.63	16.53
11.	Medical and public health	39.75	62.67	72.11	618.84	94.35	(-)524.49	(-)84.75
12.	Minor irrigation	21.21	33.02	31.41	31.65	25.26	(-)6.39	(-)20.19
13.	Roads and bridges	55.36	58.83	74.24	60.69	87.10	26.41	43.52
14.	Public works	36.09	26.59	34.03	57.52	72.80	15.28	26.56
15.	Co-operation	6.27	7.02	6.33	26.46	16.39	(-)10.07	(-)38.06
16.	Others	481.82	1,359.42	605.44	878.46	826.25	(-) 52.21	(-) 5.94
	<b>Total</b>	<b>2,930.32</b>	<b>6,532.64</b>	<b>5,816.01</b>	<b>6,766.55</b>	<b>13,601.09</b>	<b>6,834.54</b>	<b>101.00</b>

The concerned departments did not inform (October 2010) the reasons for variation, despite being requested (August 2010).

## 1.2 Response of the department/Government towards Audit

### 1.2.1 Failure of senior officials to enforce accountability and protect the interest of the state Government

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

We reviewed the IRs issued upto December 2009 and found that 22,484 paragraphs involving ₹ 3,757.81 crore relating to 9,287 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years:

Sl. No.		2008	2009	2010
1.	Number of inspection reports pending settlement	8,688	8,547	9,287
2.	Number of outstanding audit observations	21,049	20,222	22,484
3.	Amount of revenue involved (₹ in crore)	2,642.28	4,559.97	3,757.81

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below:

Sl. No.	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Amount of revenue involved (₹ in crore)	Year to which the observations relate
1.	Forestry and wild life	378	830	708.25	2003-04 to 2009-10
2.	Trade Tax/VAT including Entry tax	2,720	10,096	1,801.98	1984-85 to 2009-10
3.	State Excise	813	1,316	376.37	1984-85 to 2009-10
4.	Land revenue	558	785	25.93	1987-88 to 2009-10
5.	Taxes on vehicle, goods and passengers	946	2,640	234.92	1984-85 to 2009-10
6.	Public works	459	883	39.54	1986-87 to 2009-10
7.	Irrigation	332	691	98.04	1984-85 to 2009-10
8.	Taxes on purchase of sugarcane	96	111	53.51	1985-86 to 2009-10
9.	Stamp duty and registration fees	2,261	3,844	191.81	1984-85 to 2009-10
10.	Agriculture	182	309	22.22	1985-86 to 2009-10
11.	Electricity duty	172	210	166.15	1988-89 to 2009-10
12.	Food and civil supplies	105	179	19.77	1991-92 to 2009-10
13.	Co-operative	93	114	5.97	1985-86 to 2009-10
14.	Entertainment tax	85	144	6.13	1997-98 to 2009-10
15.	Medical and public health	84	329	7.20	2002-03 to 2009-10
16.	Jail	3	3	0.02	2002-03 to 2009-10
<b>Total</b>		<b>9,287</b>	<b>22,484</b>	<b>3,757.81</b>	

This large pendency of the IRs is indicative of the fact that the heads of offices and heads of the departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

**We recommend that the Government take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as initiate action against officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.**

### 1.2.2 Departmental audit committee meetings

The Government set up audit committees during various periods to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2009-10 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paras under consideration	Number of paras settled	Amount ( in crore)
Commercial tax	9	418	343	20.00
Stamp duty and registration fees	2	19	19	0.07
State excise	2	82	31	5.36
Taxes on vehicles, goods and passengers	6	89	89	10.60
Land revenue	3	42	41	0.26
<b>Total</b>	<b>22</b>	<b>650</b>	<b>523</b>	<b>36.29</b>

In order to expedite clearance of outstanding audit observations, it is necessary that audit committees should meet regularly and ensure appropriate action on all audit observations leading to their settlement.

### 1.2.3 Response of the Departments to the draft audit paragraphs

The Department of Finance issued directions to all the departments to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. We forward the draft paragraph/hs to the Secretaries of the concerned departments through demi-official letters by the AG, drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact on non-receipt of replies from the Departments is invariably indicated at the end of each paragraph included in the audit report.

Seventeen draft paragraphs and three reviews included in this Report for the year ended 31 March 2010 were forwarded to the Secretaries of the concerned departments between November 2006 and June 2010 through demi-official letters. The Secretaries of the concerned departments sent replies to two reviews, while replies to draft paragraphs have not been received. These have been included in this report without the response of the Government/ departments.

### 1.2.4 Follow-up on Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt in the various Audit Reports (ARs), the Department of Finance issued instructions in June 1987 to initiate *suo moto* action on all paragraphs/reviews figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the Public Accounts Committee (PAC) or not. Out of paragraphs/reviews included in Audit Reports relating to the period 2004-05 to 2008-09 which have already been laid before the State legislature, explanatory notes (ENs) in respect of 28 paragraphs/reviews were not received in our

office as on October 2010 even after the lapse of the prescribed period of three months. The outstanding ENs dating back to 2004-05 are as mentioned below:

Year of Report	Date of presentation of Audit Report to the legislature	No. of paragraphs/ reviews included in the Audit Reports	No. of paragraphs/ reviews on which ENs have been received from the departments	No. of paragraphs/ reviews on which ENs have not been received from the departments
2004-05	11 March 2006	22	16	6
2005-06	25 January 2007	21	18	3
2006-07	15 February 2008	24	12	12
2007-08	17 February 2009	16	14	2
2008-09	28 January 2010	13	8	5
<b>Total</b>		<b>96</b>	<b>68</b>	<b>28</b>

### 1.2.5 Compliance with the earlier Audit Reports

In our Audit Reports 2004-05 to 2008-09 cases of under assessment, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving ` 2,593.50 crore were reported. As of October 2010, the departments concerned have accepted observations of ` 972.13 crore and recovered ` 17.73 crore. Audit Report wise details of cases accepted and recovered are mentioned below:

(` in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2004-05	449.74	30.39	2.11
2005-06	906.66	7.91	2.39
2006-07	92.18	1.74	0.37
2007-08	1,035.85	927.83	12.83
2008-09	109.07	4.26	0.03
<b>Total</b>	<b>2,593.50</b>	<b>972.13</b>	<b>17.73</b>

The recovery in respect of the accepted money value is very low (two *per cent*).

**The Government needs to take necessary steps for prompt recovery of the amounts involved at least in the accepted cases.**

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

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last five years in respect of one Department has been evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Commercial Tax Department** in dealing with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the year 2004-05 to 2008-09.

### 1.3.1 Position of Inspection Reports

The summarised position of Inspection reports issued during the last five years, paragraphs included in these reports and their status as on March 2010 are tabulated below:

(` in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
2004-05	910	4634	1553.67	472	1724	64.68	165	565	10.26	1217	5793	1608.09
2005-06	1217	5793	1608.09	423	1530	79.40	150	336	3.43	1490	6987	1684.06
2006-07	1490	6987	1684.06	397	1457	72.17	--	--	--	1887	8444	1756.23
2007-08	1887	8444	1756.23	337	1260	46.73	394	1006	10.33	1830	8698	1792.63
2008-09	1830	8698	1792.63	419	1509	1191.18	363	1899	52.06	1886	8308	2931.75

During the year 2008-09, five Audit Committee Meetings were held in which 127 paragraphs of ` 1.07 crore were settled and during 2009-10, nine audit committee meetings were held in which 343 paragraphs involving ` 20 crore were settled.

### 1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

#### 1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned below:

(` in crore)

Year of AR	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2004-05	8	85.02	4	0.79	0.005	0.90
2005-06	7	101.85	2	0.71	--	0.86
2006-07	12	15.63	7	1.26	0.03	0.24
2007-08	7	1172.47	7	826.10	0.03	0.79
2008-09	5	9.23	2	0.73	--	0.03

The analysis of the above table shows that the percentage of the paragraphs accepted and their money value is very low. The amount recovered in relation to the money value of accepted paras is even lower.

**We recommend that the Department ensure that they at least recover amount involved in the accepted paragraphs.**

#### 1.3.2.2 Action taken on the recommendations accepted by the Departments/Government

The draft performance reviews conducted by us are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference and the Department/Governments views are included while finalising the reviews for the Audit Reports.

The details of issues highlighted in the reviews on the Commercial Tax Department featured in the last five Audit Reports including the recommendations and action taken by the Department on the recommendations accepted by it are mentioned below:

Year of Audit Report	Title of the review	Number of recommendation	Details of the recommendation accepted
2004-05	Assessment and collection of Trade Tax	2	Awaited
2005-06	Deferment Scheme to new Industrial unit under Trade Tax Act, 1948	3	Awaited
2008-09	Collection of arrears in Commercial Tax Department.	3	Awaited

The Department has not yet communicated the action taken on the recommendations given in these reports.

## 1.4 Audit planning

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

During the year 2009-10, the audit universe comprised of 3,163 auditable units, of which 1,487 units were planned and 1,340\* units were audited which was 89.85 per cent of the total planned units. The details are shown as under:

Sl. No.	Departments	Total number of auditable units	Total number of planned units	Total number of audited units	Arrear units	Percentage of units audited to planned units
1.	Trade Tax	1,487	780	681+4*	99	87.31
2.	State Excise including distilleries	131	131	119	12	90.84
3.	Motor Vehicle Taxes	71	71	71	0	100.00
4.	Cooperation	61	0	0	0	0
5.	Agriculture	122	0	0	0	0
6.	Food and Civil Supplies	61	0	0	0	0
7.	Entertainment tax	71	36	30	6	83.33
8.	Public Works Department	70	0	0	0	0
9.	Stamp and Registration	347	347	325	22	93.66
10.	Land Revenue	300	0	0	0	0
11.	Irrigation	75	23	18	5	78.26
12.	Medical and Public Health	76	25	25	0	100.00
13.	Electricity Duty	80	0	0	0	0
14.	Jail	30	0	0	0	0
15.	Interest Receipts	32	11	4	7	36.36
16.	District Mines Offices	36	0	0	0	0
17.	Forestry and Wild Life	113	63	63	0	100.00
	<b>Total</b>	<b>3,163</b>	<b>1,487</b>	<b>1,336+4*</b>	<b>151</b>	<b>89.85</b>

\*Four Joint Commissioner (Corporate) audited during 2009-10 but not included in audit plan 2009-10.

Besides the compliance audit mentioned above, three performance reviews were also taken up to examine the efficacy of the tax administration of these receipts.

## 1.5 Results of audit

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

Our test check of the records of 1,340 Trade Tax, State excise, Motor vehicles, Forest and other departmental offices conducted during the year 2009-10 revealed under assessments/short levy/loss of revenue aggregating ` 662.66 crore in 4,137 cases. During the course of the year, the departments concerned accepted under assessments and other deficiencies of ` 12.78 crore involved in 660 cases of which 34 cases involving ` 14.92 lakh were pointed out in audit during 2009-10 and the rest in the earlier years. The departments collected ` 6.01 crore in 213 cases during 2009-10.

### 1.5.2 This report

This report contains 17 paragraphs and three reviews on **Transition from Trade Tax to VAT, Working of Transport Department** and **Receipts from Forest Department** relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ` 69.51 crore. The departments/Government have accepted audit observations involving ` 8.77 crore out of which ` 15.64 lakh has been recovered. The replies in the remaining cases have not been received (October 2010). These cases are discussed in the succeeding Chapters II to VI.

## CHAPTER-II TRADE TAX/VALUE ADDED TAX

### 2.1 Tax administration

Trade Tax (TT) (known as Commercial Tax after December 2007) is the major source of revenue of the State and contributed 61 *per cent* ( ₹ 20,825.18 crore) of the total tax revenue ( ₹ 33,877.60 crore) to the State exchequer during the year 2009-10. The levy of commercial tax is governed by the provisions of the Uttar Pradesh Trade Tax Act, 1948 (UPTT Act) and rules made thereunder upto 31 December 2007, and thereafter by the provisions of the Uttar Pradesh Value Added Tax Act, 2007 (UPVAT Act). The levy of Central Sales Tax is regulated by the provisions of the Central Sales Tax Act, 1956 (CST Act) and the rules made thereunder.

The UPTT Act provides that as soon as an assessment is made by the concerned Assessing Authority (AA) (Commercial Tax Officer) he shall send the dealer a notice in form XI, together with a copy of the assessment order and the dealer shall pay the tax so assessed within 30 days from the receipt of the notice. The demand notice depicts tax already paid by the dealer and the balance due from him. If the dealer fails to deposit the tax, it can be recovered as arrears of land revenue under the provisions of the Uttar Pradesh Zamindari Abolition and Land Reforms Act, 1950 (UPZA & LR Act). A Recovery Certificate (RC) in this regard is forwarded by the AAs to the District Collectors for collection of the amount specified therein. However, with effect from October 1998, in 14 districts<sup>1</sup>, the AAs have been empowered to act as recovery officers of their concerned circles and have been entrusted the work of recovery under UPZA & LR Act. They work under the overall control of the Commissioner Commercial Tax (CCT).

The Principal Secretary, *Kar Evam Nibandhan* Uttar Pradesh, is the administrative head at Government level. The overall control and direction of the Commercial Tax Department vests with the CCT, Uttar Pradesh with headquarters at Lucknow. He is assisted by Additional Commissioners, Joint Commissioners (JCs), Deputy Commissioners (DCs), Assistant Commissioners (ACs) and Commercial Tax Officers (CTOs).

### 2.2 Trend of receipts

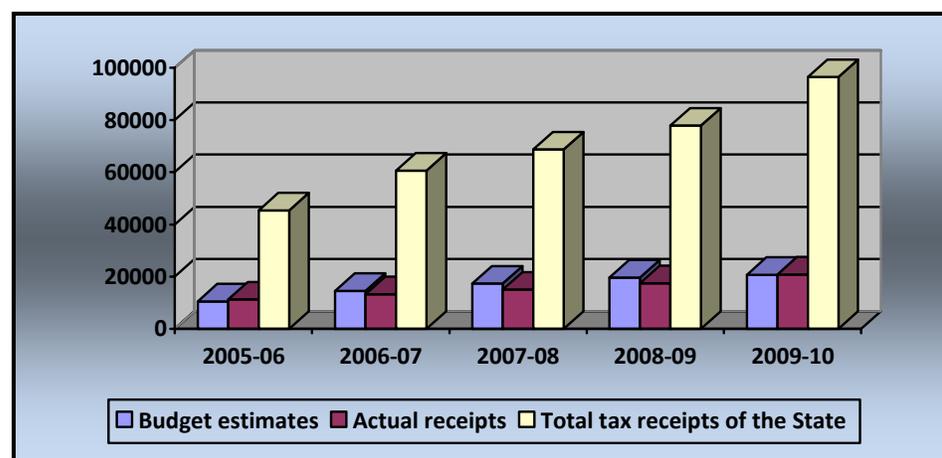
Actual receipts from Trade Tax/VAT during the last five years 2005-06 to 2009-10 along with the total tax receipts during the same period is exhibited in the following table and graph:

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<sup>1</sup> Agra, Aligarh, Allahabad, Bareilly, Noida, Gorakhpur, Ghaziabad, Jhansi, Kanpur, Lucknow, Meerut, Moradabad, Saharanpur, Varanasi.

(` in crore)

Year	Budget estimates	Actual receipts	Variation excess(+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual Trade Tax/VAT receipts vis-à-vis total tax receipts
2005-06	10,524.00	11,284.67	(+) 760.67	(+) 7.23	45,349.15	24.88
2006-07	14,528.00	13,278.82	(-) 1,249.18	(-) 8.60	60,599.52	21.91
2007-08	17,314.10	15,023.10	(-) 2,291.00	(-) 13.23	68,672.47	21.88
2008-09	19,705.00	17,482.05	(-) 2,222.95	(-) 11.28	77,830.73	22.46
2009-10	20,741.27	20,825.18	(+) 83.91	(+) 0.40	96,420.95	21.60



### 2.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ` 16,453.30 crore of which ` 11,462.56 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10:

(` in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears
2005-06	7,209.68	1,246.65	8,456.33
2006-07	8,456.33	6,113.24	14,569.19
2007-08	14,569.19	3,487.63	11,081.94
2008-09	11,081.94	4,307.91	15,389.85
2009-10	15,389.85	1,063.45	16,453.30

### 2.4 Cost of VAT per assessee

The cost of VAT per assessee during the period from 2008-09 to 2009-10 is tabulated below:

Year	Number of dealers	Gross collection (` in crore)	Expenditure on collection (` in crore)	Cost per assessee (in `)
2008-09	5,79,900	17,482.05	272.54	4,699.78
2009-10	5,75,434	20,825.18	358.43	6,228.86

## 2.5 Arrears in assessment

The details of assessments relating to commercial tax pending at the beginning of the year, additional cases that became due for assessment during the year, cases disposed during the year and cases pending at the end of the year as furnished by the Commercial Tax Department during 2005-06 to 2009-10 are mentioned below:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed of during the year	Cases pending at the close of the year
2005-06	5,30,722	5,33,349	10,64,071	5,22,962	5,41,109
2006-07	5,41,109	6,00,531	11,41,640	5,64,532	5,77,108 <sup>2</sup>
2007-08	5,76,968	6,19,710	11,96,678	2,58,011	9,38,667
2008-09	9,38,667	5,33,358	14,72,025	9,50,313	5,21,712
2009-10	5,21,712	1,83,378	7,05,090	6,92,704	12,386

## 2.6 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 are mentioned below:

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	(` in crore)
					All India average percentage for the year 2008-09
Commercial tax	2007-08	15,023.10	228.19	1.52	0.88
	2008-09	17,482.05	272.54	1.56	
	2009-10	20,825.18	358.43	1.72	

The cost of collection was two times higher than the all India average.

**The Government needs to take appropriate measures to bring down the cost of collection.**

## 2.7 Revenue impact of audit

During the last five years (excluding the report of the current year), we through our Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc., with revenue implication of ` 1,644.16 crore in 7,044 cases. Of these, the Department/Government had accepted audit observations in 419 cases involving ` 8.93 crore and had since recovered ` 1.32 crore, the details are shown in the following table:

<sup>2</sup> The closing balance as on 31 March 2007 does not tally with the opening balance as on 1 April 2007.

(` in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	468	1,150	152.48	8	1.01	4	0.05
2005-06	411	1,169	161.29	47	1.45	6	0.11
2006-07	473	1,548	74.60	38	0.36	6	0.02
2007-08	489	1,210	1,191.14	124	0.51	114	0.46
2008-09	591	1,967	64.65	202	5.60	128	0.68
<b>Total</b>	<b>2,432</b>	<b>7,044</b>	<b>1,644.16</b>	<b>419</b>	<b>8.93</b>	<b>258</b>	<b>1.32</b>

## 2.8 Results of audit

On test check of the assessments and other records of commercial tax offices, conducted during 2009-10, we found non/short levy of tax, non/short levy of tax due to misclassification of goods and incorrect rate of tax, irregular exemption, etc. of ` 77.32 crore in 2,711 cases, which fall under the following categories:

(` in crore)

Sl. No.	Categories	Number of cases	Amount
1.	<b>Transition from Trade Tax to VAT (A Review)</b>	01	-
2.	Non/short levy of penalty/interest	917	25.95
3.	Non/short levy of tax	911	26.95
4.	Irregular grant of exemption from tax	539	16.40
5.	Incorrect classification of rate of goods	68	0.71
6.	Misclassification of goods	52	1.10
7.	Irregularities relating to central sales tax	29	0.47
8.	Mistake in computation	39	0.65
9.	Turnover escaping tax	09	0.31
10.	Other irregularities	146	4.78
<b>Total</b>		<b>2,711</b>	<b>77.32</b>

During the year 2009-10, the Department accepted under assessments and other deficiencies of ` 7.13 crore involved in 559 cases of which 33 cases involving ` 14.62 lakh had been pointed out during 2009-10 and the remaining in the earlier years. The Department recovered ` 35.99 lakh in 112 cases during the year 2009-10, of which eight cases involving ` 1.97 lakh related to the year 2009-10 and the balance to the earlier years.

A review on ‘**Transition from Trade Tax to VAT**’ and a few illustrative cases involving ` 15.95 crore are mentioned in the succeeding paragraphs.

## 2.9 Transition from Trade Tax to Value Added Tax

### Highlights

- Tax Audit wing of the Department is not functional even after the lapse of three years of VAT implementation.  
**(Paragraph 2.9.9)**
- Dealers, having turnover of ` one crore and above are required to submit the Annual Audited Accounts whereas according to provisions of the Income Tax Act, all the dealers, having turnover of ` 40 lakhs and above keep an audited annual accounts.  
**(Paragraph 2.9.12.2)**
- Abolition of all the 83 check posts, working at strategic points, round the clock resulted in non confirmation of the delivery of the transit passes at the exit point of the check posts by the vehicles coming from outside the states and bound for any other place outside the state.  
**(Paragraph 2.9.13)**
- The State Legislature introduced levy of additional tax under the Uttar Pradesh Value Added Tax Act, 2008 with effect from 1 June 2009, though the White Paper on Value Added Tax (VAT) specifically discouraged levy of additional tax.  
**(Paragraph 2.9.15)**
- Verification of deposits by the dealers is still being done by the Deputy Commissioner (Administration) whereas as per VAT rules it is to be done by the concerned Assessing Authorities.  
**(Paragraph 2.9.17)**

### 2.9.1 Introduction

The Union Government in the Ministry of Finance had constituted an Empowered Committee of State Finance Ministers (Empowered Committee), to resolve the variations in the State Sales Tax Act and to introduce state level Value Added Tax (VAT). The Empowered Committee, after deliberation, had issued a White Paper (January 2005) defining the basic designs of the State level VAT. The White Paper, however, allowed the states to adopt appropriate variations in their VAT Act, consistent with the basic design. The major designs put forth in the White Paper were as follows:

- The manufacturers and traders will be given input tax credit for purchase of inputs including that on capital goods meant for use in manufacture or resale.
- Input tax credit, remaining unadjusted till the end of the second year, and also on exports, will be refunded to the dealers.
- The dealers will submit self assessment returns declaring their tax liability under the state level VAT and these self assessment returns will be

considered as deemed assessment, except where notice for the audit of books of accounts of the dealer was issued.

- Audit of books of accounts of the dealer will be de-linked from tax collection wing to remove any bias.
- The existing incentive schemes will be continued in a manner deemed appropriate by the State, after ensuring that the VAT chain is not affected.
- Taxes such as turnover tax, surcharge, additional surcharge and special additional tax would be abolished.

Major variations in the repealed Act (Uttar Pradesh Trade Tax Act) with the Uttar Pradesh Value Added Tax Act were as follows:

The UP Trade Tax Act, 1948 (UPTT Act) and rules made thereunder had governed the levy of tax on sales and purchases of goods prior to the implementation of VAT in Uttar Pradesh. The President of India approved the introduction of the Uttar Pradesh Value Added Tax Bill, 2007 in November 2007. The Bill was promulgated by an ordinance in December 2007 and enacted as the UP Value Added Tax Act, 2008 (UPVAT Act) with effect from 01.01.2008 repealing the UPTT Act on sales and purchases of goods.

- The repealed Act provided for the levy of tax at the first stage of sale/purchase or at the last stage on selected goods whereas the UPVAT Act provides for the levy of tax at each stage on value addition and the input tax credit on purchases to nullify the cascading effect.
- The repealed Act provided for compulsory assessment in all cases; whereas, under the UPVAT Act more reliance is placed on self assessment returns. In place of the provision of direct assessment in the repealed Act, the UPVAT Act provides powers to audit the books of accounts, maintained by the dealers, on selective basis, before final assessment.
- On introduction of the UPVAT Act various declaration forms prescribed for concessions and exemptions under the repealed Act were abolished. The UPVAT Act contains 82 sections and five schedules. Under Section 79 of the UPVAT Act, the State Government had notified (March 2008) the UP Value Added Tax Rules, 2008 (UPVAT Rules), prescribing the procedures to be followed while implementing the Act.
- The White Paper provided for basic rates of four *per cent*, 12.5 *per cent* and on special category one *per cent*. Consistent with the White Paper, the rate of tax under the UPVAT Act given in schedule II was four *per cent* on



a majority of goods. In schedule V, goods other than those specified anywhere in the schedule are taxable at the rate of *12.5 per cent* and in Schedule III, goods are taxable at the rate of *one per cent*. Schedule I contains the goods on which no tax is leviable and Schedule IV provides tax ranging from *four per cent* to *32.5 per cent*. With effect from 01.06.2009, the State has introduced an additional tax at the rate of *0.5 per cent* on goods classified in Schedule-II, other than declared goods and at the rate of *one per cent* on all goods except goods mentioned in Schedule I to IV of UPVAT Act. These rates of additional tax were revised with effect from 19.02.2010.

- Under the repealed Act, every registered dealer was allotted with a separate registration number. After implementation of the UPVAT Act, these dealers were allotted eleven digits number known as tax payer's identification number (TIN). The new dealers under the UPVAT Act were also issued with TIN.
- The UPVAT Act provides for payment of a lump sum amount as composition in lieu of the tax, to the dealers whose total turnover in a financial year had not exceeded ` 50 lakh with certain terms and conditions.

We reviewed the transitional process from Trade Tax to VAT in the state, which revealed a number of deficiencies in the process and also lacunae in the UPVAT Act, Rules made thereunder and notifications issued from time to time.

### **2.9.2 Organisational setup**

The Principal Secretary (Commercial Tax-Entertainment Tax), Uttar Pradesh is the administrative head at Government level. The overall control and direction of the Commercial Tax Department is with the Commissioner Commercial Tax, Uttar Pradesh with headquarters at Lucknow.

After implementation of the VAT Act, the Department has been geographically organised into 20 zones, each headed by an Additional Commissioner and these zones are further divided into 45 Regions each headed by a Joint Commissioner. A total of 436 sectors, each headed by a Deputy Commissioner, are working in these 45 regions.

### **2.9.3 Audit objectives**

Since the VAT Act has been in place for two and a half years we conducted the review to ascertain whether:

- planning for implementation and the transition from the Trade Tax Act to VAT Act was effected timely and efficiently;
- the organisational structure is adequate and effective;
- the provisions of the VAT Act and Rules made thereunder, are adequate and enforced properly to safeguard the revenue of the State; and
- an internal control mechanism exists in the Department and is adequate and effective to prevent leakage of revenue.

### **2.9.4 Scope and methodology of audit**

The review covered the period from 2004-05 to 2008-09. We conducted the review in two phases. In the first phase, from August 2009 to March 2010 we checked the assessment cases finalised during 2004-05 to 2008-09. In the second phase between May 2010 and August 2010, we checked the records on VAT for the period 01.01.2008 to 31.03.2008.

There are 45 regions, under 20 zones of the department. Based on high revenue generation and the regions sharing borders with other states, we categorised the regions in three risk areas-high, medium and low. Regions contributing more than 70 *per cent* revenue were classified as high risk areas, regions contributing more than 20 *per cent* revenue were classified as medium risk areas and regions contributing about 10 *per cent* revenue were classified as low risk areas. For the purpose of the review, out of 440 assessment offices, 105 offices were identified. 22 units belong to high risk areas, 28 units of medium risk areas and 11 units of low risk areas. Two units of mobile squads, each from high risk and medium risk, were also taken up for review. Besides, information was also collected from the 20 assessment offices and 20 units of mobile squads. To ensure uniform coverage of all parts of the State, units were selected from the North, South, East, West and Central zones of the State. The information on issues relating to implementation of VAT Act was collected from the office of the Commissioner Commercial Tax and from the administrative section of the Commercial Tax Department in the Government Secretariat.

### **2.9.5 Acknowledgement**

We acknowledge the cooperation of the *Kar Evam Nibandhan Vibhag*, Uttar Pradesh and the Department of Commercial tax in providing information and records for audit. The entry conference with the Department was held on 5 May 2010 wherein the criteria, scope and methodology of the audit was discussed. The Department was represented by the Additional Commissioner (*vidhi*). The exit Conference was held with the Department on 26 November 2010 wherein the draft review was discussed. The Government was represented by Joint Secretary (Commercial Tax-Entertainment Tax). The response of the Department to the draft review has been incorporated in the appropriate places in the succeeding paragraphs.

## Audit findings

### 2.9.6 Financial analysis

#### 2.9.6.1 Reconciliation of revenue collected

Para 125 of the Budget Manual provides for reconciliation of the departmental figures with the figures booked in the office of the Accountant General (Accounts and Entitlement) to ensure accuracy in the departmental accounts.

We noticed variations between the figures published in the Annual Report of the Commercial Tax Department (CTD) and figures of Finance Accounts under the Major Head 0040 - Sales Tax.

The figures as reflected in the Annual Report of the CTD and the Finance Accounts are shown below:

( ₹ in crore)

Year	As per Annual report of the CT Department	As per Finance Accounts	Difference
2004-05	9,226.37	8,888.31	338.06
2005-06	11,805.32	11,284.67	520.65
2006-07	14,053.85	13,278.82	775.03
2007-08	15,021.83	15,023.10	(-) 1.27
2008-09	17,403.68	17,482.05	(-) 78.37

**Source:** Reports of the Comptroller & Auditor General of India (Revenue Receipts) - Government of Uttar Pradesh and Annual report for the year 2008-09 of the Commercial Tax Department.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the reconciliation is being conducted now and therefore the difference between two sets of figures of accounts has come down considerably. The fact, however remains that the Department still could not reconcile the figures with those of the Finance Accounts.

#### 2.9.6.2 Trend of revenue

The comparative position of pre-VAT trade tax collection (2004-05 to 2006-07), post-VAT tax collection (2007-08 to 2009-10), growth rate and average growth rate of tax collection in each of the years covered in the review is given in the following table:

( in crore)

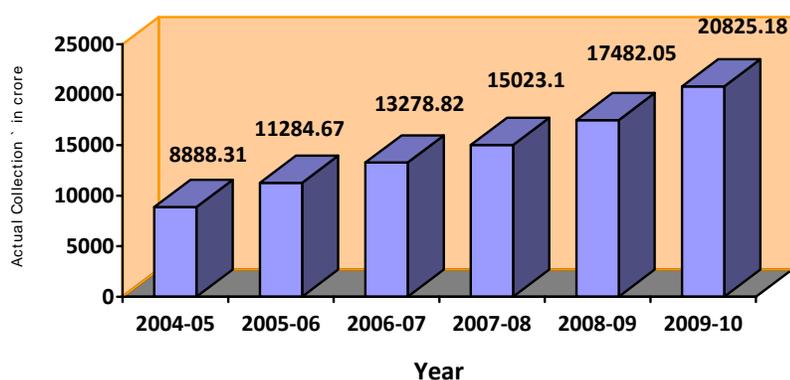
Pre-VAT				Post-VAT			
Year	Actual collection	Percentage of growth over previous year	Average percentage of growth rate of three years	Year	Actual collection	Percentage of growth over previous year	Average percentage of growth rate of three years
2004-05	8,888.31	15.67		2007-08 <sup>3</sup>	15,023.10	13.14	
2005-06	11,284.67	26.96	20.10	2008-09	17,482.05	16.37	16.21
2006-07	13,278.82	17.67		2009-10	20,825.18	19.12	

**Source:** Reports of the Comptroller & Auditor General of India (Revenue Receipts) - Government of Uttar Pradesh.

It is evident from the above table that the average growth rate during 2004-05 to 2006-07 was 20.10 *per cent* while it was 16.21 *per cent* from 2007-08 to 2009-10. The average growth rate in the post VAT period therefore registered a decrease of 3.89 *per cent*. The percentage growth of actual collection for the year 2007-08 was below the growth rate of 2006-07 whereas VAT was implemented since 1.01.2008 and in the new system, tax was to be recovered after each value addition. In the same way during 2008-09 and 2009-10, growth rate of actual collection is below 20 *per cent* whereas during 2005-06 it was above 25 *per cent* during pre-VAT period.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that after implementation of the VAT about 200 commodities of public use were exempted from tax. Commodities taxable at the rate of six and eight *per cent* under the UPTT Act were put in the slab of four *per cent* under the VAT Act. Further, reduction in the rate of Central Sales Tax from four to three *per cent* and in the next year to two *per cent* also affected the gross collection of revenue.

### Year wise Actual Collection



<sup>3</sup> Composite period of pre-VAT and post-VAT.

### 2.9.6.3 Variation between budget estimates and actual receipts

As per the provision of Para 25 of the Budget Manual, in the preparation of the budget the aim is to achieve as close an approximation to the actual as possible. It is therefore essential that not only all items of revenue and receipts should be provided but the arrears, if any, standing over from past years for collection should be included in the budget estimates.

The budget estimates formulated by the Government for collection of revenue under UP VAT Act and actual collection for the years 2007-08 to 2009-10 are given in the following table:

( in crore)

Year	Budget estimates	Percentage of increase in budget estimates over the previous year	Actual receipts	Percentage of increase in actual receipts over the previous year
2007-08 <sup>4</sup>	17,314.10	19.18	15,023.10	13.14
2008-09	19,705.00	13.80	17,482.05	16.37
2009-10	20,741.27	5.26	20,825.18	19.12

**Source:** Reports of the Comptroller & Auditor General of India (Revenue Receipts) - Government of Uttar Pradesh.

It is evident from the above table that after the implementation of the VAT Act, while the percentage of increase in actual receipts has been showing an increasing trend during 2007-08 to 2009-10, the budget estimates show a decreasing trend during that period. In 2009-10 percentage of increase in budget estimates is only 5.26. It indicated that budget estimates were not based on actual receipts and arrears of previous years as per the provision of the budget manual.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that budget estimates are received from the Finance Department and every year revised budget estimates are prepared at a fixed growth rate. We do not agree as the percentage of increase in budget estimates for the year 2009-10 is much below the percentage increase in actuals for the year 2008-09.

**The Government may therefore take necessary steps to ensure that the provisions of the budget manual are followed while formulating the budget estimates, so that these are close to the actual receipts.**

### 2.9.7 Preparedness and transitional process

The Empowered Committee of State Finance Ministers constituted by the Government of India felt that the state level VAT system should be simultaneously implemented by all the states of the Union so as to avoid problems in implementation as well as to the trade and industry. The White Paper was an expression of the genuine commitment of the states to the implementation of the VAT system from 1 April 2005.

<sup>4</sup> Composite period of Pre-VAT and Post-VAT.

While the majority of the states implemented the VAT Act between April 2005 to January 2007, in UP the VAT Act was implemented from 01 January 2008.

### **2.9.7.1 Creation of awareness of the VAT system among the dealers**

The implementation of the UPVAT Act was assigned to the Department of Commercial Tax. The Department made concerted efforts to create awareness of the new Act among the stakeholders *viz.*, the dealers. Booklets outlining the UPVAT law and an accounting tool covering the requirements of UPVAT law, was developed and were distributed free of cost to the dealers. Besides, awareness about the VAT was also created through print media.

### **2.9.7.2 Reorganisation of the department and analysis of the staff position**

We observed that after the implementation of the VAT Act, the set up of the Department was reorganised and the number of zones, assessment offices and AAs were increased by 46 *per cent* and 30 *per cent* respectively but the ministerial staff and structure of the internal audit remained unchanged. Further, the status of persons-in-position is much below the sanctioned number of posts for the last four years. These shortages may hamper revenue generation. Details regarding category-wise organisational set-up and staff position during the pre-VAT and post-VAT period is given in **Appendix-I**.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that proposal was sent to the Government for appointment of various categories of officials but only 49, 38 and 29 junior clerks, stenographers and drivers could be filled up. Further, the proposal has been sent to the Government in August 2010 for appointment in various categories of posts.

**The Government may therefore consider taking necessary steps for carrying out comprehensive manpower review in the Department of Commercial Taxes.**

### **2.9.7.3 Increase in number of dealers vis-à-vis increase in number of assessment offices**

The White Paper issued by the Empowered Committee provided for self assessment of tax liability by the dealers. Under the VAT Act, compulsory assessment at the end of each year had been dispensed with and a *per cent* check has been provided for.

The position of the average number of dealers per assessing office before and after implementation of VAT is given in the following table:

Pre-VAT				Post-VAT			
Year	Number of dealers	Number of assessment offices	Average number of dealers per office	Year	Number of dealers	Number of assessment offices	Average number of dealers per office
2005-06	4,77,433	241	1981	2008-09	5,79,900	441	1315
2006-07	5,14,350	241	2134	2009-10	5,75,434	441	1305
2007-08 <sup>5</sup>	5,15,826	241	2140				

**Source:** Information supplied by the Commercial Tax Department.

Under the UPTT Act, when all the cases were assessed *cent per cent*, the average number of dealers ranged from 1981 to 2140 per assessment office<sup>6</sup> and after the implementation of VAT Act when the provision of carrying out *cent per cent* assessment has been replaced with a percentage checking of assessments, the average number of dealers has been reduced to between 1305 and 1315 per assessment office. It may be seen from the above table that after implementation of the VAT Act, the increase in the number of offices of the assessment is 83 *per cent* whereas increase in the number of dealers after the implementation of VAT Act is only 12.42 *per cent*.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that before implementation of VAT, 1000 dealers per assessing office was the ideal norm and under the VAT system, offices were restructured keeping in view the above figure. The Department accepted that in the pre-VAT period, the number of dealers per Assessment office was much higher but the offices were not restructured.

**The Government may therefore consider reviewing the position at fixed intervals for equal distribution of work amongst the assessing officers of the Department.**

#### 2.9.7.4 Uneven allotment of dealers for assessment work

We scrutinised the system of deployment of dealers under the charge of an AA. Information regarding allotment of dealers under the charge of three levels of AAs collected from 21 assessment offices<sup>7</sup> of 11 districts during the year 2009-10 is given below:

Range of number of dealers	Dealers per Deputy Commissioner	Dealers per Assistant Commissioner	Dealers per Commercial Tax Officer
0 to 100	10	Nil	Nil
101 to 200	9	Nil	1
201 to 300	Nil	6	2
301 to 400	1	6	5
401 to 500	1	7	3
501 and above	Nil	2	10

<sup>5</sup> Composite period of pre-VAT and post-VAT.

<sup>6</sup> In each assessment office, there are three assessing authorities - Dy. Commissioner, Assistant Commissioner and Commercial tax officer.

<sup>7</sup> DC-10 & 11 Agra, DC-3 & 9 Allahabad, DC-7 & 8 Aligarh, DC-3 Bareilly, DC-12, 17 & 21 Kanpur, DC-16 Lucknow, DC-7 & Sardhana Mandal Meerut, DC-3 & 7 Moradabad, DC-3 & 8 Muzaffarnagar, DC-10 & 14 Noida and DC-5 & 6 Varanasi.

We observed that under the charge of a Dy. Commissioner, an Assistant Commissioner and a Commercial Tax Officer the minimum number of dealers allotted were 49, 211 and 153 respectively whereas the maximum numbers of dealers were 454, 790 and 1536 respectively for the purpose of assessment. We analysed the criteria of distribution of the dealers and found that a district was divided on the basis of geographical location. It is evident that in each city some of the areas have more commercial activities and some areas are non-commercial, i.e. purely residential areas. This geographical distribution caused variation in allotment of number of dealers. Further, no norms for allotment of dealers have been fixed by the Department with reference to the number of dealers. The figures depicted in the above table reveals that the work distribution (allotment of the dealers) among the AAs was not uniform.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that sectors will be re-structured to avoid such differences from the beginning of the year 2011-12.

**The Government may consider allotment of dealers in a more scientific way to ensure equal distribution of dealers amongst the AAs.**

#### 2.9.7.5 Cross verification

Under the UPVAT law, cross verification of records of purchasing/selling dealers and cross check of data available with other taxation departments were of utmost importance to ensure proper realisation of Government revenue. With a view to help the Commercial Taxes departments of various States and Union Territories in monitoring the sales/purchases made in the course of interstate trade and commerce, the Empowered Committee of State Finance Ministers authored a website named Tax Information Exchange System (TINXSYS) as a repository of interstate transactions.

We collected information from the IT wing of the office of the Commissioner of Commercial Taxes and found that 890 users have been created to verify the data of dealers as well as forms of the other States through this website. Central Sales Tax (CST) dealers' information and CST Form Baseline Data is sent

and uploaded in this website, but at present all the Central forms are being issued manually. Hence, the data relating to such forms are not available in the TINXSYS website resulting in non-verification of inter-State transactions.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that at present the forms are being distributed manually but these would be made available online very soon. After the start of this facility, online sharing of database with TINXSYS will be possible on the real time basis.

**The Government may consider taking of necessary steps to make the system operational at the earliest.**

### 2.9.7.6 Computerisation of the Department

The Commercial Tax Department has started the activities of computerisation of the Department in the second half of the financial year 2007-08. The consultants for the project, National Informatics Centre (NIC), developed a web based Integrated Application Software called Vanijyakar Automation System (VYAS).

The main aim of the project was to cater to the needs of the Department by providing Web based Citizen Centric services, such as use of technology to alter the way of services, exchange of information with the public and other Government Departments,

improving internal efficiency, exploiting true revenue potential and enhancement and up-gradation of the current applications.

The total projected cost for the Information Technology system was ` 45 crore and the target date for the finalisation is March 31, 2012. Till March 2010, expenditure of ` 27.26 crore has been incurred.

VYAS application system is presently running in 93 locations in decentralised mode. There is a core team of five officers at the Headquarters level and the IT wing operations are maintained by departmental officers with technical background. There are 20 zones, each headed by one Nodal officer and one IT Group member for operating the system. Since 1 January 2008, under the VYAS system modules and online application are operational.

#### **During the course of our audit we noticed the following deficiencies related to the computerisation work:**

- Automatic alerts are not generated to prompt the users to change their password periodically, though required as a prudent security policy.
- The process of data flow, to and from the local to the Central Server is yet to be stabilised and auto scheduling is still to be developed. There is no concurrent database at local and central server. Thus, analytical data at State level is not available, resulting in incomplete analytical reports of little use for MIS and Control.
- Collection of information from the four offices<sup>8</sup> of the Joint Commissioner (Executive) Kanpur and six offices<sup>9</sup> of the Dy. Commissioner (Assessment) revealed that no data was available in respect of exemptions/concessions of tax granted, though a reliable database, of exemptions/concessions of tax allowed to dealers is a prerequisite for informed decision making.
- Database of dubious or risky dealers based on their past history has not been prepared.
- The modules related to reports, user administration management and online application of MIS report are developed but not fully

<sup>8</sup> JC (E) Range A, B, C & D Kanpur.

<sup>9</sup> DC-3 & 9 Allahabad, DC-21 Kanpur, DC-16 Lucknow and DC- 3 & 7 Moradabad.

operational and some of the specific MIS reports are manually generated.

- There is no system continuity and disaster recovery plan and there are no defined responsibilities or teams to manage any system disaster.
- Documented methods for the Data Centre operations, performance monitoring, information security and contingency management, defined policy for the documented user administration, role management plan and defined hardware policy is lacking.
- The database management under the VYAS is done by the NIC but the Department had not implemented any long term policy to have its own IT professionals.
- There has been increase of 83 *per cent* in number of offices of assessment but the sanctioned number of computer operators remained unchanged.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that instructions have been issued to the offices for change of password and in subsequent application, it would be developed. Export/import utility has been provided in the software for transfer from local to Central server. Database of exemption and concession has not been maintained because it is not likely to continue beyond 2012. Provision for preparing a database of risky dealers has been made in the Tax Audit Manual. At present backups are taken and soon a disaster recovery site is proposed to be set up. At present the Department is using the data centre of NIC. In future the Department will switch over to State Data Centre having well defined policies. Hardware maintenance is being taken care of at the Zonal level. Proposal for additional posts from System Controller to Computer Operator has been sent to the Government.

We do not agree to the contention of the Department with regard to discontinuance of exemption/concession and data base of risky dealers as the VAT Act too provided for granting exemption of tax. Further under the Tax Audit Manual, system of preparation of database of risky dealers did not exist. There are no documented methods for Data Centre operations, performance monitoring, information security etc. at 93 local sites of the Department.

**The Government may consider taking necessary steps to ensure that concurrent database at local and central server is available for use by skilled manpower.**

#### 2.9.7.7 Creation of manuals

A manual maps the processes and provides a reference point to navigate as well as for organising training on the new Act. It also lays down a framework of internal controls for effective monitoring.

Although the UP VAT Act has been in place for more than two and half years, the Department is yet to prepare a VAT manual. As a result, the various

wings of the Department do not have a reference point for effective practices.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the Tax Audit Manual has been prepared and a manual relating to various work of the Department is under preparation.

**The Government may consider issuing appropriate directions for bringing out a manual containing procedures to be followed day to day functioning of the various activities of the Commercial Tax Department at the earliest.**

### 2.9.7.8 Training

We noticed that before implementation of VAT, training relating to VAT was imparted only to the officers and officials engaged in assessment of the cases at the zonal level. Besides, from time to time, training was also imparted in the training centre of the Department at Lucknow. Though officers and officials of the internal audit wing were also required to be trained, no such training was imparted to them.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that during the whole year training is imparted to officers/officials of the various wings but the Department could not give any specific reply regarding training of VAT to the officials of Internal Audit Wing, either before or after implementation of the VAT.

**The Government may consider imparting training to the staff of the internal audit wing at regular intervals.**

## 2.9.8 Registration of dealers

Under the provision of Section 17 of UPVAT Act, every dealer liable to pay tax i.e. taxable quantum of five lakh rupees, shall apply to the registering authority within the prescribed period and shall obtain registration certificate. There is no provision in the Act for compulsory registration of such dealers, who are found carrying on business above the threshold limit nor is there any mechanism to analyse the dealers carrying on business below threshold limit.

The number of registered dealers during the period from 2005-06 to 2009-10 vis-à-vis receipts per dealer is given in the following table:

( ` in lakh)

Period	No. of dealers	Percentage of increase (+)/ decrease(-) with reference to previous year	Actual receipts	Percentage of increase in actual receipts with reference to previous year	Receipts per dealer
2005-06	4,77,433	--	11,28,467	--	2.36
2006-07	5,14,350	7.73	13,27,882	17.67	2.58
2007-08	5,15,826	0.29	15,02,310	13.14	2.91
2008-09	5,79,900	12.42	17,48,205	16.37	3.01
2009-10	5,75,434	(-)0.77	20,82,518	19.12	3.61

**Source:** Information supplied by the Commercial Taxes Department.

It could be seen from above that after implementation of the UPVAT Act, there was an increase in VAT receipts and receipts per dealer but in comparison with the increase in actual receipts, increase in number of registered dealers has been showing a declining trend in 2009-10.

### **2.9.8.1 Non-registration of dealers carrying out business above threshold limit**

We collected information from the 24 offices<sup>10</sup> of the Assistant Commissioner (Mobile Squad), and found that 7,777 dealers, with goods worth ` 96.46 crore were caught without valid documents during 2007-08 to 2009-10. After realising tax and penalty amounting to ` 37.48 crore, the vehicles were released. In all the cases, it was seen that the dealers were carrying on their business above the threshold limit. There is no provision in the Act for compulsory registration of such dealers.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the Commissioner Commercial Taxes has issued<sup>11</sup> instructions to ensure registration of the unregistered dealers. But the Department could not intimate the number of dealers who have been registered after the issue of the circular. We feel that the specific provision may be made in the Act and Rule for registration of unregistered dealers.

**The Government may consider providing for compulsory registration of unregistered dealers detected by the mobile squads and evolving a system to identify unregistered dealers who have crossed the threshold limit and get them registered.**

### **2.9.8.2 Filing of e-returns**

A dealer, whose aggregate of turnover is likely to exceed or has exceeded in preceding assessment year one crore rupees from 1 February 2009 and two crore rupees from 1 July 2009 or such amount as may be determined by the State Government from time to time, shall submit e-return online on the official website of the Department.

We collected information from the CCT and found that 3,09,366 and 1,62,875<sup>12</sup> e-returns were filed during 2008-09 and 2009-10 respectively. We had suggested in

October 2010 that the Government should make provision for submission of online return for all registered dealers.

The Department stated in December 2010 that filing of e-return has been made compulsory for all the dealers irrespective of the turnover vide Circular dated 21 December 2010.

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<sup>10</sup> AC (MS) 1 to 9 Agra, AC (MS) Badaun, AC (MS) Aam Tanda, Bareilly, AC (MS) A & B range Bareilly, AC (MS) Gazipur, AC (MS) 5 & 8 Ghaziabad, AC (MS) 1 to 5 Noida, AC (MS) Pilibhit, AC(MS) Shahjahanpur, AC (MS) 1 Varanasi.

<sup>11</sup> Circular No. 1004 dated 22 September 2010.

<sup>12</sup> The number reduced due to increase in limit from rupees one crore to rupees two crore.

### 2.9.9 Tax audit

Section 44 of the UPVAT Act, read with Rule 43 of the UPVAT Rules, provides for the examination related to the correctness of tax return or returns filed by a dealer to verify admissibility of various claims including claim of input tax credit by the departmental authorities in tax audit.

We collected information from 23 assessment offices<sup>13</sup> and found that no tax audit wing has been created even after the new Act being in place for

more than two years and time barring period for the assessment of the cases of 2007-08 (01.01.2008 to 31.03.2008) is 31 March 2011. Further, no instructions in this regard were received in any offices of the AAs from the office of the Commissioner Commercial Tax.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that in each zone a unit of Tax Audit has been constituted. In each zone there is sanctioned post of one Joint Commissioner, two Deputy Commissioners, three Assistant Commissioners and three Commercial Tax Officers. However keeping in view the availability of the officers only 17 Joint Commissioners and three Assistant Commissioners have been posted to make it functional. Officers will be posted in the remaining audit units subject to availability of the officers.

**We feel that delayed action to scrutinise the cases by tax audit wing may result in delay in realisation of additional tax, if due, for that period besides the cases being barred by limitation. Thus the Government may consider ensuring that Tax audit wing is made functional at the earliest.**

### 2.9.10 Creation of Settlement Commission

Under the provision of section 62 of the UP VAT Act 2008, there shall be a Settlement Commission for settlement of amount of tax in case of imposition of penalty for concealment of the turnover or for unauthorised import of any goods by the dealer.

We collected information from the office of the Commissioner, Commercial Tax and found that even after the new Act, being in force for more than two and a half years, a Settlement Commission has not been constituted, though a

Chairman was appointed on 15 September 2008.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the Chairman of Settlement Commission has been appointed and appointment of its members is pending at the Government level.

**The Government may consider ensuring that the Settlement Commission is made functional at the earliest.**

<sup>13</sup> DC-10 & 11 Agra, DC-3 & 9 Allahabad, DC-7 & 8 Aligarh, DC-3 & AC-3 Bareilly, DC-4, Ghaziabad, DC-12, 17 & 21 Kanpur, DC-16 Lucknow, DC-7 & Sardhana Mandal Meerut, DC-3 & 7 Moradabad, DC-3 & 8 Muzaffarnagar, DC-10 & 14 Noida and DC-5 & 6 Varanasi.

## 2.9.11 Self assessment

### 23 offices<sup>14</sup> of Assessment

Under the UP VAT Act, every dealer who has submitted annual return of turnover of tax, in the prescribed form and manner, shall be deemed to have been assessed to an amount of tax admittedly payable.

We found that the cases for the year 2007-08 (1.04.07 to 31.12.07) were finalised under the provision of the UPTT Act and rules made thereunder but no case

was finalised for the period 1.01.2008 to 31.03.2008, under the VAT Act. The time barring period for finalisation of the assessment under the VAT Act for the above mentioned period is 31.03.2011.

**We suggest that the assessment cases should be finalised proportionately in each month.**

## 2.9.12 Deterrence in the System

### 2.9.12.1 Change in draft of penal provision

We studied 40 Judicial Pronouncements, delivered by the Allahabad High Court, related to imposition of penalty under the UPTT Act and found that 30 Judgements<sup>15</sup> were delivered in favour of dealers. As per prevailing practice in the Department some cases which are found fit for further appeal in Supreme Court, are referred to State representative for further appeal but number of such cases are very few.

The penal provisions in the VAT Act were not redrafted keeping in view the judgements on the penal provisions under UPTT Act.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the matter is being examined by the *Vidhi Anubhag* and if it was found necessary provision for imposition of penalties would be amended accordingly.

### 2.9.12.2 Differences with the Income Tax Act

Under the provision of Section 21(17) of UP VAT Act, every person carrying on business exceeding ` one crore, shall get his accounts audited by a Chartered Accountant (CA). But section 44-AB of the Income Tax Act 1961 provides monetary limit of ` 40 lakh for it.

We noticed that the dealers with gross turnover (GTO) of more than ` 40 lakh have to keep audited accounts under the Income Tax (IT) Act but they are not

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<sup>14</sup> DC-10 & 11 Agra, DC-3 & 9 Allahabad, DC-7 & 8 Aligarh, DC-3 & AC-3 Bareilly, DC-4 & 9 Ghaziabad, DC-12, 17 & 21 Kanpur, DC-16 Lucknow, DC-7 & Sardhana Mandal Meerut, DC-3 & 7 Moradabad, DC-3 & 8 Muzaffarnagar, DC-10 Noida and DC-5 & 6 Varanasi.

<sup>15</sup> Cases of Judicial Pronouncements delivered against the Department are given in Appendix-II.

required to submit it to the UP Commercial Tax Department as monetary limit under the VAT Act is ₹ one crore. In the Madhya Pradesh VAT Act, the limits are the same as that of the IT Act. In the absence of provisions on the lines of the IT Act, the AAs are not in a position to cross-verify the information in the cases of dealers having GTO between ₹ 40 lakh and ₹ one crore.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the VAT Act has been passed by the legislature after detailed discussion and consideration.

**The Government may consider keeping the monetary limit of turnover at ₹ 40 lakh for getting the accounts audited by CAs in line with the provisions of the Income Tax Act.**

### Other related issues

#### 2.9.13 Check points

Under the provision of Section 28 of UPTT Act and Section 49 of UPVAT Act, check posts at strategic points along its borders with the neighbouring states and under Section 45 of UPVAT Act, mobile squad units, inside the states, were responsible for checking the movement of goods, not covered by proper documents. But after the abolition of check posts the mobile squad units are the sole checking agency.

With a view to check the evasion of tax by irregular import of goods into UP and their non-accounting in the books of accounts by the dealers, check posts were established at strategic points along its borders with the neighbouring states. This system of check

posts existed at the time of implementation of the VAT Act but during 2008-09 and 2009-10, all the 83 check posts were abolished in two phases. The numbers of mobile squads has been increased to 150 from the earlier 54 but at present only 127 units are functional.

Details regarding vehicles which entered with unauthorised goods and amount of security/penalty recovered from them from 2003-04 to 2007-08, are given below:-

Year	2003-04	2004-05	2005-06	2006-07	2007-08
No. of check posts	78	81	81	83	83
No. of vehicles which entered with unauthorised goods	6,75,701	7,00,935	6,35,454	5,28,350	5,84,282
Amount recovered as security/penalty (₹ in crore)	127.71	123.75	135.46	141.69	149.88

**Source:** Annual report for the year 2008-09 of the Commercial Tax Department.

It is evident from the above table that a large number of traders entered the State without valid documents and when caught at the check posts, they paid the amount of security/penalty.

We observed that when check posts were working round the clock, the number of vehicles that entered with unauthorised goods ranged between five and seven lakh during 2003-04 to 2007-08. We also observed that during 2007-08 when 83 check posts were working at strategic points round the clock, 2282 unregistered dealers were caught by nine mobile squad units within the State. However, after abolition of check posts, 2,385 and 3,110 unregistered dealers were caught by the mobile squads during 2008-09 and 2009-10. In these cases goods worth ` 96.46 crore were seized and ` 37.48 crore were recovered between 2007-08 and 2009-10. Hence despite the existence of check posts, there was a possibility that dealers without valid documents were slipping through the check posts. Thus, abolition of check posts without creating an effective alternative has caused substantial loss of revenue to the State.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that it was decided by the Government of India that the State Government should abolish the barriers at the border of the State. In the light of the above order, for easy and smooth transportation of goods loaded vehicles, check posts were abolished in two phases and in order to make the checking system more effective, number of mobile squads have been increased. The fact however remains that the Department did not devise a system to ensure that vehicles transiting through UP border for other States do not off-load their goods in UP.

**The Government may consider devising an effective mechanism to prevent the leakage of revenue after the abolition of check posts and also develop a system to ensure that vehicles transiting through UP to other states do not offload their goods in UP.**

#### **2.9.14 Claims for compensation of loss due to introduction of VAT**

The Government of India (GOI) agreed to compensate the State Government for loss of revenue, consequent to the implementation of VAT and issued guidelines in June 2006.

We collected the information from the office of the Commissioner, Commercial Tax and found that claim of ` 189.96 crore has been worked out for the year 2007-08 (only for the month of February and March 2008) and submitted (7.01.2010) to Government of India. Scrutiny of the records of the office of the Principal Secretary *Kar Avam Nibhandhan* revealed that the compensation amount has not been received so far.

### 2.9.15 Levy of Additional Tax

The White Paper issued by the Empowered Committee *vide* paragraph 2.16 specifically discouraged levies of other taxes viz., turnover tax, surcharge, additional surcharge and special additional tax under the VAT system.

Provision of non-levy of other taxes was suggested to avoid multiple types of taxes and to have a more simplified tax structure under the VAT system.

We observed that after the implementation of the VAT Act, with effect from 01.06.2009, the State had introduced an additional tax at the rate of 0.5 *per cent* on goods classified in Schedule-II, other than declared goods and at the rate of one *per cent* on all goods except goods mentioned in Schedule I to IV of UPVAT Act. These rates of additional tax were revised with effect from 19.02.2010. This was in contravention to the basic concept of the State level VAT.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that Additional tax has been levied by the legislature after due consideration and other States have also levied the additional Tax.

### 2.9.16 Monitoring of exemption of tax

#### 2.9.16.1 Exemption to Medical and Dental Colleges

Section 4(c) of the UPTT Act and Section 7(c) of UPVAT Act provides exemption of tax on taxable goods in case a notification is issued by the State Government in this behalf.

We observed that *vide* notification no. 1529 dated 21 May 1997, in case of Medical Colleges, no tax shall be charged on the

purchase of apparatus and equipments up to ` 10 crore for five years from the date of permission to open the College and in case of Dental Colleges the exemption limit was ` five crore for the period of five years from the date of permission to open the College with certain terms and conditions.

As the Medical and Dental Colleges are not registered in the Department, exemption of tax provided by special notification remains unmonitored. Tax free purchases beyond the prescribed monetary limit and beyond the stipulated time cannot be ruled out.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that suggestion of monitoring has been taken into account by the *Vidhi Anubhag* and wherever it would be necessary proposal for this would be sent to the Government but the Department could not tell how the cases of exemptions are being monitored in above mentioned cases.

**The Government may consider ensuring that each notification issued in respect of grant of exemption contain the method/system of monitoring to determine the correctness of claims.**

### 2.9.16.2 Exemption on sale of vehicles to Armed Forces/Defence establishments

*Sansthaगत Vitta, Kar evam Nibandhan Anubhag-2* vide their notification no. 2372 dated 24.11.2009, provided that no tax shall be payable by a dealer on the turnover of sale of vehicles for personal use subject to fulfillment of certain terms and conditions and with the restriction of annual sale of 3000 two wheelers and 1,200 four wheelers of whole State. However, the Department did not prescribe any specific return for the dealers to ensure correctness of exemptions upto prescribed number of vehicles.

We noticed that the sale of vehicles to the members of Armed Forces of India/other defence establishments or defence Ex-servicemen are made within the State of UP through many canteen

stores departments/ Military canteens. There are a number of such canteen stores departments/Military canteens in UP. The notification has not clarified the modalities to monitor the number of vehicles sold and also not specified the nodal agency to monitor the same. In absence of monitoring agency, sale of vehicles exceeding the provided number in a year, cannot be ruled out.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that suggestion of monitoring has been taken into account by the *Vidhi Anubhag* and wherever it would be necessary proposal for this would be sent to the Government but the Department could not tell how the cases of exemptions are being monitored in above mentioned cases.

**The Government may consider prescribing a periodic and specific return for the dealers selling vehicles to the members of Armed Forces/Defence establishments in Uttar Pradesh.**

### Compliance deficiencies

### 2.9.17 Verification by treasury and reconciliation of discrepancy

#### 24 offices<sup>16</sup> of Assessment

Under the provision of Rule 52 of the repealed UPTT Rules 1948, the Assistant Commissioner (Administration) or Dy. Commissioner (Administration) was responsible for verification of the deposits made by the dealer, during the month, with the records of the treasury or sub-treasury. But under Rule 14 of the UPVAT Rules 2008, the Assessing Authorities were designated the task of verification of accounts.

We found that even after the new UPVAT rules were in place for more than two and a half years, verification of deposits were still being done under the system prevailing in the pre-VAT period i.e. the verification is

being done by the Dy. Commissioner (Administration) and not by the AAs.

<sup>16</sup> DC-10 & 11 Agra, DC-3 & 9 Allahabad, DC-7 & 8 Aligarh, DC-3 Bareilly, AC-3 Bareilly, DC-9 Ghaziabad, DC-12 & 21 Kanpur, DC-15, 16 & 17 Lucknow, DC-7 & Sardhana Mandal Meerut, DC-3 & 7 Moradabad, DC-3 & 8 Muzaffarnagar, DC-10 & 14 Noida, DC-5 & 6 Varanasi.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the suggestion given by the Audit is being examined.

**The Government may consider ensuring that the verification system, prevailed in pre-VAT period is discontinued and system of reconciliation of deposit of tax works according to the UPVAT rules.**

### 2.9.18 Finalisation of assessment

#### 34 offices<sup>17</sup> of Assessment

Under the provision of Rule 232 of departmental manual (based on Trade Tax Act), monthly quota for finalising the assessment order was fixed for different category of Assessing Authority. As per rules, Dy. Commissioner (Assessment) would finalise 10 cases per month.

We collected information for the years 2008-09 and 2009-10 and found that the bulk of the cases were finalised during the month of March. The percentage of finalisation of the total cases in the

month of March was 79 per cent and 77 per cent during 2008-09 and 2009-10 respectively.

We observed that as per provision of the existing manual, cases were not finalised as per norms fixed. This quota has been fixed so that cases might be finalised only after thorough, intensive and indepth checking of the books of accounts and other statements, filed by the dealer.

Under the provision of the VAT Act/Rules no such quota for finalisation of the assessment has been fixed. As the new manual has not yet been prepared, no guidelines have been provided in this regard. It is evident that most of the cases are finalised at the end of the financial year.

**The Government may consider ensuring that the cases are finalised according to the provision of the existing manual till the creation of new manual.**

### 2.9.19 Unused declaration forms

#### 21 offices<sup>18</sup> of Assessment

Under the UPTT Act, various declaration forms were prescribed for allowing concessional rate of tax or exemption from the levy of tax on purchases. With effect from 1 January 2008, after the implementation of the VAT Act, the previous system of exemption and concessions of tax, based on declaration forms, has been discontinued.

We noticed that assessment cases for the year 2007-08 (01.04.2007 to 31.12.2007) have been finalised. In such cases, where the assessments are finalised and there is no need of declaration forms,

<sup>17</sup> Details are given in Appendix-III.

<sup>18</sup> DC-10 & 11 Agra, DC-3 & 9 Allahabad, DC-7 & 8 Aligarh, DC-3 Bareilly, DC-12, 17 & 21 Kanpur, DC-16 Lucknow, DC-7 & Sardhana Mandal Meerut, DC-3 & 7 Moradabad, DC-3 & 8 Muzaffarnagar, DC-10 & 14 Noida, DC-5 & 6 Varanasi.

such forms issued in the previous system should have been taken back from the dealers to avoid any misuse.

We found that even after introduction of the new system for more than two and a half years, the Department has not issued any order to take back such forms from the dealers.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that action is being taken by the *Vidhi Anubhag* to cancel the obsolete forms.

**The Government may consider ensuring that the order regarding cancellation of unused declaration forms are issued at the earliest to avoid misuse of unused declaration forms.**

### 2.9.20 Internal Control Mechanism

Internal audit is a vital component of the internal control mechanism and is generally defined as the control of all controls to provide reasonable assurance of proper enforcement of laws, rules and departmental instructions. Internal control also helps in creation of reliable financial and management information system for prompt and efficient services and for adequate safeguards against evasion of tax and other irregularities.

The internal audit wing has been functioning under the administrative control of the CCT and the Department has sanctioned 13 posts of Audit Officers, 40 posts of Sr. Auditors and 51 posts of Auditors. However all the 13 posts of Audit Officers, nine posts of Sr. Auditors and 46 posts of Auditors were lying vacant. Internal audit is being conducted with the aid of 60 *per cent* Sr. Auditors/Auditors, without any supervision of Audit Officers. As per the Audit plan total auditable units, number of offices audited by internal audit and number of offices left unaudited for the period 2005-06 to 2009-10 are given in the following table:

Year	Auditable units as per Audit Plan	Audited units	Unaudited units
2005-06	613	360	253
2006-07	619	363	256
2007-08	619	520	99
2008-09	621	562	59
2009-10	618	432	186

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that due to lack of manpower internal audit of all the auditable units could not be conducted and a proposal was sent to the UP Public Service Commission in 2002-03 and 2007-08 followed by several reminders for filling up the vacant posts of the Auditors. At present, only 10 Auditors have been provided by the Commission. As far as appointments of Audit Officers is concerned, it would be filled up on clearing of departmental examination by the Sr. Auditor Grade-I.

**The Government may consider taking appropriate steps to ensure that vacant post in each cadre are filled up so that internal audit of all the units identified in the audit plan could be conducted.**

### **2.9.21 Conclusion**

We analysed the transitional process from Trade Tax to VAT and noticed that the VAT Act did not provide for conducting of surveys for identification of unregistered dealers. Computerisation of the Department has not been completed even after the new Act being in place for more than two and a half years. Check posts were abolished without developing an effective alternative to check the inflow of the dealers without valid documents. The Government resorted to levy of additional tax instead of tapping potential areas of revenue.

### **2.9.22 Summary of recommendations**

The Government may consider:

- taking necessary steps to ensure that the provisions of the budget manual are followed while formulating the budget estimates;
- taking necessary steps for carrying out comprehensive manpower review in the Department of Commercial Taxes;
- reviewing the position at fixed intervals for equal distribution of work amongst the assessing officers of the Department;
- allotment of dealers in more scientific way to ensure equal distribution of dealers amongst the AAs;
- taking necessary steps to make the system operational at the earliest;
- taking necessary steps to ensure that concurrent database at local and central server is available for use by skilled manpower;
- issuing appropriate directions for bringing out a manual containing procedures to be followed in day to day functioning of the various activities of the Commercial Tax Department at the earliest;
- imparting training to the staff of the internal audit wing at regular intervals;
- providing for compulsory registration of unregistered dealers caught by the mobile squads and evolving of a system to identify unregistered dealers who have crossed the threshold limit and get them registered;
- ensuring that Tax audit wing is made functional at the earliest;
- ensuring that the Settle Commission is made functional at the earliest;
- keeping the monetary limit of turnover at ` 40 lakh for getting the accounts audited by CAs in line with the provisions of the Income Tax Act;
- effective devising an mechanism to prevent the inflow of tax evading dealers after the abolition of check posts and also develop a system to ensure that vehicles transiting through UP border for other states do not offload their goods in UP;
- ensuring that the verification system, prevailed in pre-VAT period is discontinued and system of reconciliation of deposit of tax works according to the UPVAT rules;

- ensuring that the cases are finalised according to the provision of the existing manual till the creation of new manual;
- ensuring that the order regarding cancellation of unused declaration forms are issued at the earliest to avoid misuse of unused declaration forms; and
- taking appropriate steps to ensure that vacant post in each cadre are filled up so that internal audit of all the units identified in the audit plan could be conducted.

## 2.10 Other audit observations

*Our scrutiny of the assessment records of the Commercial Tax Department revealed several cases of non-observance of the provisions of the Acts/Rules, non/short levy of tax/penalty/interest, irregular exemption, incorrect application of rate of tax, etc. as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on our test check. Such omissions on the part of Assessing Authorities (AAs) have been pointed out by us each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. We feel that there is need for the Government to improve the internal control system including strengthening of internal audit.*

## 2.11 Non-compliance of the provisions of the Act/Rules

*The UPTT Act provides for :*

- (i) levy of tax and interest at the prescribed rates*
- (ii) imposition of penalties for various kinds of trade offences;*
- (iii) charging of interest in case of belated payment of admitted tax; and*
- (iv) exemption/concessional rate of tax subject to prescribed conditions.*

*The AAs while finalising the assessments did not observe some of the above provisions. This resulted in short levy of tax/penalty amounting to ` 3.37 crore as mentioned in the following paragraphs:*

### 2.11.1 Non/short levy of tax due to application of incorrect rate of tax and misclassification of goods

*The AAs while finalising the assessments, did not apply the correct rate of tax, given in the schedule of rates and in some of the cases lower rate of tax was applied due to misclassification of goods which resulted in non/short levy of tax of ` 1.40 crore as mentioned in the following paragraphs:*

#### Three Commercial Tax Offices

Under section 8 of the CST Act, 1956, tax on inter-State sale of goods (other than declared goods) not covered by declaration in Form 'C' is leviable at the rate of 10 per cent or at the rate applicable on sale or purchase of such goods inside the appropriate State, whichever is higher.

**2.11.1.1** We observed that three dealers made inter state sale of DEPB<sup>19</sup>, spirit and alcohol worth ` 50.70 lakh without declaration in Form 'C' during the years 2005-06 and 2006-07. The AA while finalising the assessments between September 2007 and March 2009 levied tax at lower rates instead of the rates applicable. This resulted in short levy of tax amounting to ` 6.78 lakh as mentioned in the following table:-

<sup>19</sup> Duty Entitlement Pass Book.

(` in lakh)

Sl. No.	Name of the unit	Assessment year (month & year of assessment)	Name of commodity	Value of goods	Tax leviable levied (per cent)	Differential rate of tax	Tax short levied
1.	DC-2 CT Bulandshahar	2005-06 (September 2007)	Alcohol	4.69	<u>32.5</u> 10	22.5	1.06
2.	DC-1 CT Dhampur	2006-07 (March 2009)	Alcohol (Spirit)	12.30	<u>32.5</u> 12	20.5	2.52
3.	DC-1 CT Noida	2005-06 (December 2008)	DEPB	13.69	<u>10</u> 0.5	9.5	1.30
		2006-07 (March 2009)	-do-	20.02	<u>10</u> 0.5	9.5	1.90
<b>Total</b>				<b>50.70</b>			<b>6.78</b>

We reported the matter to the Department and the Government between July 2009 and December 2009; their reply has not been received (October 2010).

#### Four Commercial Tax Offices

Under section 3A of the UPTT Act, tax on classified goods is leviable as prescribed in the schedule of rates, notified by the Government from time to time. The goods not classified in the prescribed schedule of rates, are taxable at the rate of 10 per cent with effect from 1 December 1998.

**2.11.1.2** We observed that in the cases of six dealers for the period 2003-04 to 2007-08, the AAs while finalising the assessments between January 2006 and

March 2009, applied incorrect rate of tax on sale of goods worth ` 9.44 crore. This resulted in short levy of tax of ` 14.88 lakh. The details are shown in Appendix-IV.

After we pointed out these cases to the Department and the Government between September 2009 and January 2010, the Department stated in September 2010 that tax of ` 3.59 lakh has been levied (Sl. No. 1 & 2) in two cases. The report on recovery of the same and reply in the remaining cases from the Department and in all cases from the Government have not been received (October 2010).

#### 14 Commercial Tax Offices

We observed between May 2009 and February 2010 that in the cases of 14 dealers, the AAs while finalising the assessments between February 2005 and March 2009 for the years 2003-04 to 2006-07, applied incorrect rate of tax on sale of goods valued at ` 14.87 crore due to misclassification of goods. This resulted in short levy of tax of ` 73.99 lakh. The details are shown in Appendix-V.

After we pointed out these cases to the Department and the Government between July 2009 and February 2010, the Department stated in September 2010 that the tax levied at Sl. No. 2 & 14 are correct. We do not agree with the reply of the Department, as taxability of the preserved food is at the manufacturer or importer point instead of the sale to consumer point which the AA had applied in these two cases.

### Eight Commercial Tax Offices

Under Section 3-H of the UPTT Act read with the Commissioners' circular dated 3 May 2005 as applicable from 1 May 2005, State Development Tax (SDT) at the rate of one *per cent* of the taxable turnover shall be levied on a dealer whose annual aggregate turnover exceeds fifty lakh rupees. The SDT shall be realised in addition to the tax payable under any other provision of this Act.

**2.11.1.3** We observed between February 2009 and February 2010 that in eight cases of dealers whose annual aggregate turnover exceeded ₹ 50 lakh, the AAs while finalising (October 2007 and March 2009) the assessments

for the years 2005-06 and 2006-07 did not levy Development tax on taxable turnover of ₹ 44.52 crore. This omission resulted in non-levy of State Development Tax of ₹ 44.53 lakh as detailed in Appendix-VI.

We reported the matter to the Department and the Government between April 2009 and March 2010; their replies have not been received (October 2010).

### 2.11.2 Non-imposition of penalty and non-charging of interest

*The AAs while finalising the assessments, did not notice the offences committed by the dealers i.e. irregular transactions, transactions out of account books, transactions against the provisions of the Act and Rules. Though there are clear cut provisions for imposition of penalties and charging of interest in the Act, no action was initiated in this regard, resulting in non-imposition of penalty and non-charging of interest amounting to ₹ 1.97 crore as mentioned in the following paragraphs:*

#### Four Commercial Tax Offices

Under section 15 A (1) (C) of the UPTT Act, if the Assessing Authority is satisfied that a dealer has concealed his turnover or has deliberately furnished incorrect particulars of his turnover, he may direct such dealer to pay by way of penalty, in addition to tax, a sum not less than 50 *per cent* but not exceeding 200 *per cent* of the amount of tax.

**2.11.2.1** We observed between April 2008 and October 2009 that four dealers had concealed sales turnover of ₹ 6.79 crore during the years 1997-98 to 2006-07. The AAs while finalising their assessments between December 1999 and

March 2009 levied tax of ₹ 29.52 lakh but did not impose even the minimum penalty of ₹ 14.76 lakh. The details are given in the following table :

(` in lakh)

Sl. No.	Name of the unit	Assessment year (month & year of assessment)	Concealed turnover	Name of the commodity	Tax levied on concealed turnover	Minimum penalty leviable
1.	DC(A)-1,CT, Bhadohi	2000-01 (July 2003)	275.00	Woolen Yarn	9.88	4.94
		2001-02 (July 2003)	310.00	---do---	11.05	5.53
2.	JC (Corporate) Ghaziabad	2006-07 (March 2009)	40.00	Chocolate and Confectionery	3.60	1.80
3.	AC(A), CT, Hamirpur	1997-98 (December 1999)	15.00	Sand	1.13	0.56
		1998-99 (December 1999)	16.63	---do---	1.25	0.62
		1999-2000 (March 2002)	2.88	---do---	0.22	0.11
4.	DC(A)-2, CT, Moradabad	2004-05 (November 2006)	19.89	GI Pipes, Pipe fittings, Sanitary Goods	2.39	1.20
<b>Total</b>			<b>679.40</b>		<b>29.52</b>	<b>14.76</b>

After we pointed out these cases to the Department and the Government between June 2008 and December 2009, the Department stated between May 2009 and August 2010 that the penalty of ` three lakh in two cases (Sl. No. 2 & 4) has been imposed. The report on recovery and replies in the remaining cases from Department and in all cases from the Government have not been received (October 2010).

### Five Commercial Tax Offices

Under section 15 (A) (1) (a) of the UPTT Act, if the Assessing Authority is satisfied that any dealer or other person has, without reasonable cause, failed to furnish the return of his turnover or fails to deposit the tax under the provision of this Act, he may direct the dealer to pay by way of penalty in addition to tax, if any payable by him, a sum which shall not be less than 10 per cent but not exceeding 25 per cent of tax due, if the tax due is upto ` 10,000 and 50 per cent if it is above ` 10,000.

**2.11.2.2** We observed between October 2008 and December 2009 that six dealers had not deposited their admitted tax of ` 3.86 crore for the period 2005-06 and 2006-07 in time. The delay ranged between one and 125 days. The AAs while finalising the assessments between February 2008

and March 2009 were required to direct the dealers to pay penalty of ` 38.59 lakh in addition to the tax leviable which was not done. The details are shown in Appendix-VII.

After we pointed out these cases to the Department and the Government between December 2008 and December 2009, the Department stated in May 2009 that the penalty of ` 3.03 lakh in one case (Sl. No. 1) has been imposed. The report on recovery and replies in the remaining cases from the Department and in all cases from the Government have not been received (October 2010).

## 12 Commercial Tax Offices

Under section 8D (6) of the UPTT Act, a person responsible for making payment to a contractor, for discharge of any liability on account of valuable consideration payable for transfer of property in goods in pursuance of works contract, shall deduct an amount equal to four *per cent* of such sum, payable under the Act, on account of such works contract. In case of failure to deduct the amount or deposit the amount so deducted into the Government treasury before the expiry of the month, following the month in which the deduction was made, the Assessing Authority may direct that such person shall pay by way of penalty a sum not exceeding twice the amount so deducted.

**2.11.2.3** We observed between January 2008 and February 2010, that 12 dealers, while making payment to the contractors, deducted tax of ` 30.38 lakh at source during the years 1997-98 to 2006-07 but did not deposit the same into the Government treasury within the prescribed time. The delay ranged between four days and 244 days. The AAs while finalising the assessments between

March 2005 and March 2009 failed to impose the maximum penalty of ` 60.76 lakh. The details are shown in Appendix-VIII.

After we pointed out these cases to the Department and the Government between March 2008 and March 2010, the Department stated between September 2008 and August 2010 that penalty of ` 14.41 lakh in four cases (Sl. No. 2, 3, 6 & 8) had been imposed. The report on recovery and replies in the remaining cases from the Department and in all cases from the Government have not been received (October 2010).

## 10 Commercial Tax Offices

Under section 10 & 10 A of the Central Sales Tax Act, if a registered dealer purchases any goods from outside the State at concessional rate of tax on the strength of declaration in Form 'C' by falsely representing that such goods are covered by his Registration Certificate under the Central Sales Tax Act or if the goods purchased from outside the State at concessional rate of tax are used for a purpose other than that for which the registration certificate is granted, the dealer is liable to be prosecuted. However, in lieu of prosecution, if the Assessing Authority deems it fit, he may impose penalty up to one and half times of the tax payable on the sale of such goods.

**2.11.2.4** We observed between March 2008 and August 2009 that during the years 2001-02 to 2006-07, 10 dealers purchased goods valued at ` 3.58 crore at concessional rate of tax against declaration in Form 'C' which were not covered by their certificates of registration. The AAs while finalising the assessments between December 2005 and March 2009 did not levy penalty of ` 62.17

lakh. The details are shown in Appendix-IX.

After we pointed out these cases to the Department and the Government between April 2008 and December 2009, the Department stated between March 2008 and August 2010 that in three cases (Sl. No. 2, 4 & 6) penalty of ₹ 16.34 lakh has been imposed. The report on recovery of the same and replies in the remaining cases from the Department and in all cases from the Government have not been received (October 2010).

### Two Commercial Tax Offices<sup>20</sup>

Under section 8 (1) of the UPTT Act, every dealer liable to pay tax, is required to deposit the amount of tax into the Government treasury before the expiry of the month, following the month in which the tax was due. The tax admittedly payable by the dealer, if not paid by the due date, attracts interest at the rate of two *per cent* per month up to 11 August 2004 and there after at the rate of 14 *per cent* per annum on the unpaid amount, till the date of deposit.

**2.11.2.5** We observed between June 2009 and February 2010, that two dealers, who were assessed between May 2008 and October 2008 for the assessment years 2001-02 and 2003-04, had deposited the admitted tax of ₹ 30.90 lakh late. The

delay ranged between 1,107 and 1,828 days. Belated payment of admitted tax attracted interest of ₹ 20.91 lakh which was not levied by the AAs.

After we pointed out these cases to the Department and the Government between August 2009 and March 2010, the Department accepted the audit observation in September 2010 involving ₹ 15.64 lakh and recovered the same from one dealer. Reply for the other case has not been received from the Department and Government (October 2010).

## 2.12 Short levy due to freight charges not counted in turnover

### Deputy Commissioner (A)-4, CT, Noida

Under section-2(i) of the UPTT Act, turnover means the aggregate amount for which goods are supplied or distributed by way of sale, by a dealer, for cash or deferred payment of other valuable consideration. Further, it has been judicially held<sup>21</sup> that freight charges form part of turnover even if such charges are shown separately in the sale bills.

We observed (February 2009), that during the year 2005-06 a dealer charged ₹ 6.79 crore as freight on his sale during the year. The freight charged by the dealer was a part of his turnover. The AA while finalising the assessment in March 2008

did not include the freight amount in his sales turnover which resulted in short levy of tax of ₹ 67.91 lakh.

We reported the matter to the Department and the Government in September 2009; their replies have not been received (October 2010).

<sup>20</sup> DC (A)-7 CT, Lucknow and DC (A)-3 CT, Mau.

<sup>21</sup> (1) M/s Black Diamond Beverage & Anr. Vs. The Commercial Tax Officer, Central Section, Assessment Wing, Calcutta and others. STI 1997 SC-272(2) CST Vs. Shivalik Motors and Tractors STI-2005 All.HC 744, 2005 NTN (Vol. 28) 150 All. HC.

### 2.13 Irregular grant of Recognition Certificate

#### Deputy Commissioner (Assessment) Commercial Tax, Fatehpur

The Government notification dated 21 May 1994 issued under section-4B of the UPTT Act, provides for special relief in tax to the manufacturer on purchase of raw material, processing material, consumable stores, machinery, plant, equipment, spare parts, accessories, components, fuel or lubricants for use in the manufacture of specified goods.

We observed that a dealer was granted Recognition Certificate for purchase of raw material at concessional rate of tax for conversion of MS Rod into MS Wire by drawing process. It has been judicially held<sup>22</sup> that conversion of MS Rod into

MS Wire does not amount to manufacture. Since the dealer was not engaged in any manufacturing process, he was not entitled to concessional rate of tax on purchase of raw material valued at ` 6.80 crore during the years 2005-06 and 2006-07. This resulted in irregular grant of recognition certificate and loss of revenue of ` 13.60 lakh.

After we pointed this out to the Department and the Government between January 2009 and October 2009 the Department stated in June 2009 that tax of ` nine lakh for the year 2005-06 has been levied. The report on recovery and reply for the other year has not been received (October 2010).

### 2.14 Irregular exemption

#### Two Commercial Tax Offices<sup>23</sup>

Under section 6(2) of the CST Act, inter state sale or purchase of goods affected by transfer of document of title to the goods during their movement from one state to another against form E-1/C, is exempted from payment of tax. The exemption is not admissible if there exists any purchase order prior to date of transfer of title of goods.

We observed for the period 2005-06 and 2006-07, that in two cases assessed between September 2008 and March 2009 the AAs allowed exemption from tax on sale of

goods worth ` 13 crore against form E-1/C, although the purchase orders were issued by the purchasers prior to transfer of title of goods as evident from details available in Form-C. As the purchase orders were issued prior to transfer of title of the goods, grant of exemption from tax of ` 1.30 crore was not in order.

We reported the matter to the Department and the Government in June 2009; their reply has not been received (October 2010).

<sup>22</sup> CTT vs. Decent Industries STI 2005 All. H.C. 205:2005 NTN (Vol. 26) 202 All. H.C.

<sup>23</sup> DC (A)-2, CT, Allahabad and DC (A)-2, CT, Lucknow.

## 2.15 Short levy of tax due to calculation mistake

### Three Commercial Tax Offices

We observed that in case of three dealers who were assessed between December 2004 and March 2009 for the years 2002-03 and 2006-07, mistakes were committed in calculation of tax which resulted in short levy of tax amounting to ` 37.28 lakh as mentioned below:

( ` in lakh)						
Sl.No.	Name of the Unit	Assessment year (month & year of assessment)	Taxable turnover	Tax leviable	Tax levied	Tax short levied
1.	AC-6 CT Allahabad	2002-03 (December 2004)	1,047.99	32.96	30.64	2.32
2.	DC-9 CT Bareilly	2006-07 (March 2009)	753.09	37.65	3.77	33.88
3.	DC-20 CT Kanpur	2002-03 (March 2009)	12.00	1.20	0.12	1.08
<b>Total</b>			<b>1,813.08</b>			<b>37.28</b>

We reported the matter to the Department and the Government between January 2006 and February 2010; their replies have not been received (October 2010).

## 2.16 Non-observance of the terms and conditions of the Government notification and departmental orders

### Two Commercial Tax Offices

Under the provisions of section 15 (C) of the Central Sales Tax Act read with the Commissioner's circular dated 29 March 2007, tax is levied on purchase of paddy inside the State. If the rice is produced out of such paddy, the purchase tax is deducted from the tax levied on sale of rice only in case of intra-State sale and if it is sold in the course of inter-State trade/commerce, such adjustment is not permissible.

We observed between February 2009 and May 2009 that two dealers purchased paddy from within the State and manufactured rice from it during the years 2003-04 to 2006-07. The

dealers made inter-State sale of rice manufactured from paddy on which purchase tax of ` 9.07 lakh was paid by the dealers. The AAs while finalising the assessments between October 2005 and September 2008 allowed the benefit of purchase tax of ` 9.07 lakh, which was irregular. This resulted in non-realisation of revenue of ` 9.07 lakh. The details are shown as below:

( ₹ in lakh)

Sl. No.	Name of Unit	No. of dealers	Year of assessment (month & year of assessment)	Total CST sale	Tax levied	Irregular exemption of purchase tax
1.	DC (A), CT, Kosikalan, Mathura	1	2003-04 (August 2008)	107.56	4.30	2.38
			2005-06 (August 2008)	196.39	7.86	3.37
			2006-07 (September 2008)	86.95	3.48	1.68
2.	DC (A) CT Hardoi	1	2003-04 (October 2005)	33.54	1.41	0.64
			2004-05 (August 2006)	50.74	2.03	1.00
<b>Total</b>				<b>475.18</b>	<b>19.08</b>	<b>9.07</b>

We reported the matter to the Department and the Government between April 2009 and August 2009; their replies have not been received (October 2010).

## 2.17 Irregular grant of exemption of tax

### DC Sector-16 Agra involving two institutions of KVIC

Vide notification dated 07.10.2004 exemption of tax is granted on manufacture of electronic goods. Voltage stabilizers, UPS and Inverters fall under the category of electrical goods and not under the category of electronic goods.

We noticed (November 2009) that during 2006-07, two institutions sold self-manufactured electrical goods (UPS, Stabilizer and Inverter) amounting to ₹ one crore. The AAs while

finalising the assessment in October 2008 granted exemption of tax of ₹ 11 lakh, as these institutions were authorised for the manufacturing of only electronic goods, the grant of exemption of tax on electrical goods was irregular.

We reported the matter to the Department and the Government in December 2010, their replies have not been received (December 2010).

## 2.18 Exemption of tax on free bonus scheme

### DC Sector-12 Lucknow

Vide notification dated 15 January 2000, medicines and pharmaceutical preparations are taxable at the rate of eight *per cent* with effect from 17 January 2000 to 31 December 2007, at the point of sale by manufacturer or importer.

We noticed (November 2009) that during 2004-05 and 2005-06 a dealer imported medicines worth ₹ 78.28 crore on the strength of 716 import declaration forms and out of that, medicines worth ₹ 2.91 crore, were given free of cost, as bonus. The AAs while finalising assessment between February 2007 and March 2008 granted exemption of tax of ₹ 23.31 lakh on it. As the imported item was liable to be sold, grant of exemption of tax on free distribution of the medicine resulted in loss of

revenue amounting to ₹ 23.31 lakh. In the absence of any provision on free distribution, the grant of exemption of tax was irregular.

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that the dealer has not charged any amount from the purchaser regarding the medicine, hence, tax is not leviable on the medicines given as free bonus. We do not agree as all the items imported against the import declaration forms are liable to be taxed and there is no such provision neither in UPTT Act nor in rule regarding grant of such exemption.

## 2.19 Grant of Exemption of Entry tax

### JC(C) Ghaziabad and one office<sup>24</sup> of DC involving two dealers

Vide notification No. 3238 dated 01 November 2001, no tax shall be levied and collected from the cent *per cent* export oriented manufacturing dealers on entry of capital goods, plant, machinery, spare parts, raw materials and consumable goods into the local area from any place outside that local area. Further, by issue of a circular No. 645 dated 12 January 2005, it was clarified that such exemption of entry tax on fuel/diesel would not be admissible to cent *per cent* export oriented units.

We noticed between October 2009 and November 2009 that during 2003-04 to 2006-07, two dealers had imported diesel and petroleum based products, valued at ₹ 193.09 crore. The AAs while finalising the assessment between March 2006 and March 2009

granted exemption of entry tax of ₹ 9.65 crore. The details are given below:

(₹ in crore)

Sl. No.	Name of unit	Number of dealers	Name of commodity	Year	Value of commodity	Rate of tax leviable	Non-levy of tax
1.	DC Sec 19 Ghaziabad	1	Diesel	2003-04 & 2004-05	11.50	5	0.57
2.	DC Sector 19 Ghaziabad/ Joint Commissioner (Corporate) Ghaziabad	2	Diesel	2005-06 & 2006-07	4.32	5	0.22
			Carbon Black Feed Stock	2006-07	177.27	5	8.86
	<b>Total</b>				<b>193.09</b>		<b>9.65</b>

After we pointed this out to the Department and the Government in October 2010, the Department stated in December 2010 that in both the cases, the matter is being examined and if any irregularity is found, necessary action would be taken according to the rules.

<sup>24</sup> DC-19 Ghaziabad.

## CHAPTER-III STATE EXCISE

### 3.1 Tax administration

Excise duty on liquor for human consumption, fees in case of other intoxicants such as *charas*, *bhang* and *ganja* etc. and confiscation imposed or ordered is levied under the UP Excise Act, 1910 (UPE Act) and rules made thereunder. These rules have been made in order to have a proper check over leakages of revenue in the department by enforcing control over illicit production, import and export of alcohol, illegal purchase and sale of liquor and other intoxicants.

Alcohol is produced in distilleries mainly from molasses obtained as a byproduct during manufacturing of sugar. Various kinds of liquor, such as country liquor (CL) and Indian made foreign liquor (IMFL) like whisky, brandy, rum and gin are manufactured from alcohol. Excise duty on production of alcohol and liquor in distilleries forms a major part of excise revenue. Liquor for human consumption is issued from distilleries either under bond without excise duty or on pre-payment thereof at the prescribed rates. Apart from excise duty, licence fee also forms part of excise revenue. The District Collector (DC) with the assistance of the District Excise Officer (DEO) is responsible for settlement of liquor shops in the district.

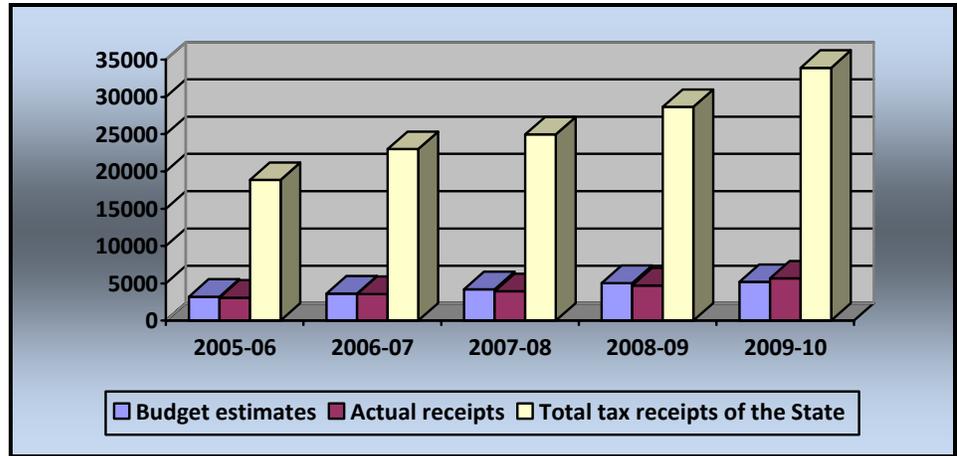
The collection of duty, fee and other taxes is administered and monitored by the Commissioner, Excise who is assisted by two Additional Excise Commissioners, three Joint Excise Commissioners (JECs), 10 Deputy Excise Commissioners (DECs) and six Assistant Excise Commissioners (AECs) at headquarters. For the purpose of effective administration, the State is divided into four zones and 17 circles. At district level the DEOs/AECs are posted to assess, levy and collect revenue. At the distillery, the AEC/officer incharge (inspector) is posted for levy and collection of excise duty.

### 3.2 Trend of receipts

Actual receipts from State Excise during the years 2005-06 to 2009-10 along with the total tax/non-tax receipt during the same period is exhibited in the following table and graph.

( in crore)

Year	Budget estimates	Actual receipts	Variation excess (+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax /non-tax receipts
2005-06	3,200.00	3,088.54	(-) 111.46	(-) 3.48	18,857.90	16.38
2006-07	3,650.00	3,551.25	(-) 98.75	(-) 2.71	22,997.97	15.44
2007-08	4,192.00	3,948.40	(-) 243.60	(-) 5.81	24,959.32	15.82
2008-09	5,040.00	4,720.01	(-) 319.99	(-) 6.35	28,658.97	16.47
2009-10	5,176.45	5,666.06	489.61	9.46	33,877.60	16.73



### 3.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 63.23 crore of which ₹ 58.41 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

(₹ in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears
2005-06	58.41	0.30	59.86
2006-07	59.86	0.05	60.89
2007-08	60.89	0.06	61.39
2008-09	61.39	0.03	61.95
2009-10	61.95	0.07	63.23

It is evident from the above table that during the years 2005-06 to 2009-10, the amount of arrears was increasing but the collection of arrears by the Department was very low.

**We recommend that the Government may consider taking appropriate steps for early recovery of the arrears.**

### 3.4 Cost of collection

The gross collection of the State Excise revenue receipts, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of cost of collection to gross collection for 2008-09 are mentioned below:

(₹ in crore)

Head of revenue	Year	Gross collection	Cost of collection	Percentage of cost of collection to gross collection	All India average percentage of cost of collection 2008-09
State Excise	2007-08	3,948.40	44.57	1.13	3.66
	2008-09	4,720.01	50.19	1.06	
	2009-10	5,666.06	70.86	1.25	

We noted that the cost of collection for the State Excise Department is well below the all India average.

### 3.5 Revenue impact of audit

During the last five years (excluding the report of the current year), we through our Inspection Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, application of incorrect rate of tax, incorrect computation etc. with revenue implication of ` 1,971.10 crore in 676 cases. Of these, the Department/Government had accepted audit observations in 27 cases involving ` 93 lakh and had since recovered ` 50.14 lakh. The details are shown in the following table:

(` in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	62	146	48.59	02	0.43	--	--
2005-06	66	126	470.67	04	0.24	04	0.24
2006-07	80	122	60.68	--	--	--	--
2007-08	82	93	18.80	12	0.06	12	0.06
2008-09	118	189	1,372.36	09	0.20	09	0.20
<b>Total</b>	<b>408</b>	<b>676</b>	<b>1,971.10</b>	<b>27</b>	<b>0.93</b>	<b>25</b>	<b>0.50</b>

### 3.6 Results of audit

Our test check of the records of 119 units during 2009-10 relating to State Excise receipts revealed under assessments of tax and other irregularities involving ` 66.93 crore in 140 cases which fall under the following categories:

(` in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Low recovery of alcohol from molasses	46	57.16
2.	Non-lifting of MGQ of country liquor	28	2.10
3.	Non-realisation of licence fee	15	0.43
4.	Non-levy of interest	11	0.15
5.	Other irregularities	40	7.09
<b>Total</b>		<b>140</b>	<b>66.93</b>

During the course of the year, the Department accepted and recovered underassessment and other deficiencies of ` 94.79 lakh in 20 cases, of which one case involving ` 30,435 was pointed out in audit during the year 2009-10 and the rest in earlier years.

A few illustrative cases involving ` 1.44 crore are mentioned in the following paragraphs.

### 3.7 Audit observations

*Our scrutiny of records in the offices of the State Excise Department revealed cases of non-lifting of MGQ of country liquor, non-levy of interest and transit loss of total reducing sugar as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. We point out such omissions each year, but not only do the irregularities persist, these remain undetected till we conduct an audit. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.*

### 3.8 Loss of excise duty due to short lifting of Minimum Guaranteed Quota of country liquor

#### Nine district excise offices<sup>1</sup>

Under the provisions of Rule 14 of the Uttar Pradesh Excise (Settlement of licences for the retail sale of country liquor) Rules 2002, a licensee is liable to lift the entire minimum guaranteed monthly quota (MGQ) fixed for him, during the year. In case of failure, the licensing authority has to adjust the outstanding balance amount of license fee from the security deposit of the licensee and also issue a notice to the licensee by the third day of the next month to replenish the deficit in the security amount either by lifting such quantity of country liquor involving duty equivalent to the adjusted amount or by depositing cash or a combination of both. In case the licensee fails to replenish the deficit in security amount by the tenth day of the next month, his licence shall stand cancelled.

We observed that 128 licensees lifted 27.92 lakh bulk litre (BL) of country liquor against MGQ of 29.18 lakh BL during the year 2008-09. As the full quantity of MGQ of country liquor was not lifted during the year, differential amount of licence fee i.e. ` 1.31 crore on the short lifted quantity of 1.26 lakh BL of liquor, was to be recovered from the licensees. The Department, however, did not

initiate any action either to adjust the amount from the security deposits or to cancel the licence. This resulted in loss of excise duty of ` 1.31 crore as shown in Appendix-X.

We reported the matter to the Department and the Government between May 2009 and March 2010; their reply has not been received (October 2010).

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<sup>1</sup> Allahabad, Etawah, Ghaziabad, Gorakhpur, Jhansi, Mathura, Mau, Orai and Varanasi.

### 3.9 Non-levy of interest on belated payment of excise revenue

#### Five district excise offices<sup>2</sup> and two distilleries<sup>3</sup>

Under the provision of Section 38 (A) of the Uttar Pradesh State Excise Act, 1910, where any excise revenue is not paid within three months from the date on which it becomes payable, interest at the rate of 18 *per cent* per annum is recoverable from the date such excise revenue becomes payable.

We observed that excise revenue of ₹ 34.09 lakh pertaining to the period 2002-03 to 2006-07 was deposited late with delays ranging from 100 days to 1496 days. However, the Department did not levy interest amounting to ₹ 12.85 lakh on the belated payment.

We reported the matter to the Department and Government between November 2006 and

March 2010; their reply has not been received (October 2010).

### 3.10 Loss of revenue due to transit loss of Total Reducing Sugar (TRS)

#### Six distilleries<sup>4</sup>

Rules 8, 20 and 25 of the UP Excise Rules do not provide for any loss of Total Reducing Sugar (TRS) present in molasses during transit. Further, as per the Excise Commissioner's Circular in May 1995 a maximum 12 *per cent* unfermentable sugar is present in TRS and as such 46.20 Alcoholic Litre (AL) of spirit can be produced from one quintal of TRS.

We observed that while transporting molasses during September 2007 and November 2009 there was a loss of TRS which ranged between 0.18 to 3.70 *per cent* as compared to the TRS shown in the transport passes issued by the sugar factories. The distilleries received 1,636.24 quintal of TRS short from which 75,593.22

AL of alcohol involving excise revenue of ₹ 2.92 crore could have been produced as shown in Appendix-XI.

We reported the matter to the Department and the Government between August 2009 and March 2010; their reply has not been received (October 2010).

<sup>2</sup> Jhansi, Lakhimpur Kheri, Mathura, Mau and Raebareli.

<sup>3</sup> NICL Raja Ka Sahaspur, Moradabad and Rampur distillery.

<sup>4</sup> Bajaj Hindustan Ltd., Ganganauli, Saharanpur, Co-operative sugar mills distillery, Anoop Sahar, Bulandshahar, K.M. Sugar mills distillery, Faizabad, Narang distillery, Gonda, Simbhauli, Ghaziabad and Sir Shadi Lal distillery, Muzaffarnagar.

## CHAPTER-IV TAXES ON VEHICLES, GOODS AND PASSENGERS

### 4.1 Tax administration

The Uttar Pradesh Motor Vehicle Taxation Act, 1997 (UPMVT Act), UP Motor Vehicles Taxation Rules, 1998, Motor Vehicles Act, 1988 and Motor Vehicles Rules, 1989 provide for levy of various types of taxes viz. goods tax, additional tax (passenger tax) and fees etc. in the State.

The entire process of assessment and collection of taxes and fees is administered and monitored by the Transport Commissioner of UP, Lucknow, who is assisted by two Additional Transport Commissioners at Headquarters office and six Deputy Transport Commissioners (DTCs), 19 Regional Transport Officers (RTOs) and 70 Assistant Regional Transport Officers (Administration) (ARTOs) in the field.

### 4.2 Cost of collection

The gross collection in respect of taxes on vehicles, goods and passengers, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of cost of collection to gross collection for 2008-09 are mentioned below:

( ` in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage of cost of collection 2008-09
Taxes on vehicles, goods and passengers	2007-08	1,255.49	36.15	2.87	
	2008-09	1,391.15	50.43	3.62	2.93
	2009-10	1,674.55	69.16	4.13	

The cost of collection of the Transport Department is higher than the all India average.

**The Department needs to take appropriate measures to bring down the cost of collection.**

### 4.3 Revenue impact of audit

During the last five years (excluding the report of the current year), we through our Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, application of incorrect rate of tax, incorrect computation etc. with revenue implication of ` 308.82 crore in 1,240 cases. Of these, the Department/Government had accepted audit observations in 273 cases involving ` 29.83 crore and had since recovered ` 3.55 crore. The details are shown in the following table:

(` in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	39	190	61.57	115	25.15	114	0.61
2005-06	41	250	20.45	3	1.73	1	0.02
2006-07	48	243	14.01	3	0.21	3	0.18
2007-08	62	213	94.45	4	0.25	4	0.25
2008-09	71	344	118.34	148	2.49	148	2.49
<b>Total</b>	<b>261</b>	<b>1,240</b>	<b>308.82</b>	<b>273</b>	<b>29.83</b>	<b>270</b>	<b>3.55</b>

#### 4.4 Results of audit

Test check of the records of 71 units relating to Transport Department receipts revealed under assessment of tax and other irregularities involving ` 26.46 crore in 245 cases which fall under the following categories:

(` in crore)

Sl. No.	Category	Number of cases	Amount
1.	<b>Working of Transport Department (A review)</b>	1	15.60
2.	Non/short levy of passenger tax/additional tax	127	8.00
3.	Under assessment of road tax	8	0.44
4.	Short levy of goods tax	9	0.40
5.	Other irregularities	100	2.02
	<b>Total</b>	<b>245</b>	<b>26.46</b>

During the course of the year, the Department accepted underassessment and other deficiencies of ` 84.93 lakh in 40 cases, which were pointed out in audit in earlier years. This amount has since been recovered.

A review on **Working of Transport Department** with financial impact of ` 15.60 crore is mentioned in the succeeding paragraphs.

## 4.5 Working of Transport Department

### Highlights

- There was short levy of additional tax of ₹ four crore on passenger vehicles of other States.  
(Paragraph 4.5.14)
- Short assessment of additional tax on stage carriages resulted in short realisation of ₹ 8.72 crore.  
(Paragraph 4.5.15)
- Non-levy of tax on laden weight of vehicles resulted in non-realisation of tax of ₹ 2.18 crore and penalty of ₹ 54.53 lakh.  
(Paragraph 4.5.16)
- Non-issue of certificate of fitness resulted in non-realisation of fitness fee of ₹ 2.95 crore and penalty of ₹ 5.77 crore.  
(Paragraph 4.5.17)
- Non-creation of Accident Relief Fund (ARF) resulted in non-credit of a sum of ₹ 78.24 crore.  
(Paragraph 4.5.22)

### 4.5.1 Introduction

The Transport Department contributes five *per cent* of the total tax revenue of the State. Motor vehicles taxes are levied and collected under the provisions of the Uttar Pradesh Motor Vehicles Taxation Act, 1997 (UPMVT Act) and Uttar Pradesh Motor Vehicles Taxation Rules, 1998 (UPMVT Rules) framed thereunder. Besides, fees for licence, registration, fitness certificate, permit, appeal and compounding of offences are levied and collected under the provisions of the Motor Vehicles Act, 1988 (MV Act), Central Motor Vehicles Rules, 1989 (CMV Rules) and UP Motor Vehicles Rules, 1998 (UPMV Rules) framed thereunder. Motor vehicles tax in respect of non-transport vehicles are realised in lump sum as a one time tax, whereas tax and additional tax from transport vehicles are realised monthly/quarterly at the rates specified in the UPMVT Act.

### 4.5.2 Organisational set up

The Principal Secretary is the administrative head of the Transport Department at the Government level. The overall responsibility of the Transport Department rests with the Transport Commissioner (TC), Lucknow, who is assisted by two Additional TCs at Headquarters and six Deputy TCs at the zonal level. There are 19 Regional Transport Officers (RTOs) at the regional level and 70 Assistant Regional Transport Officers (ARTOs) at the district level for levy and collection of revenue.

#### 4.5.3 Audit objectives

We conducted the review on **Working of Transport Department** with a view to ascertain whether:

- adequate systems and procedures existed in the Department for levy and collection of revenue and its credit to Government account;
- the provisions of the Acts and Rules were complied with for levy and collection of revenue; and
- adequate internal controls existed for proper accounting and realisation of arrears and arresting pilferage/leakage of revenue.

#### 4.5.4 Audit criteria

The review was conducted with reference to the provisions made under following Acts, rules and orders:

- (i) Uttar Pradesh Motor Vehicles Taxation Act, 1997.
- (ii) Uttar Pradesh Motor Vehicles Taxation Rules, 1998.
- (iii) Motor Vehicles Act, 1988.
- (iv) Central Motor Vehicles Rules, 1989.
- (v) UP Motor Vehicles Rules, 1998.
- (vi) Government/departmental orders/circulars etc.

#### 4.5.5 Sampling and Audit Methodology

For the purpose of the review we segregated the units into high, medium and low risk areas<sup>1</sup> on the basis of revenue realised by the RTOs/ARTOs covering the period from 2004-05 to 2008-09. We examined the records of all 13 districts<sup>2</sup> offices identified as high risk, seven district<sup>3</sup> offices out of 13 districts identified as medium risk and 11 district<sup>4</sup> offices out of the remaining 44 districts offices identified as low risk areas. The units of medium and low risk area were selected on random sampling basis. The review was conducted during the period from September 2009 to March 2010.

#### 4.5.6 Acknowledgement

We acknowledge the co-operation of the Department in providing necessary information and records to audit. The audit objectives were discussed in an

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<sup>1</sup> High risk : where the revenue collection was above ` 25 crore annually.

Medium risk : where the revenue collection ranged between ` 10 and ` 25 crore.

Low risk : where the revenue collection was below ` 10 crore.

<sup>2</sup> RTO Agra, Allahabad, Bareilly, Ghaziabad, Gorakhpur, Kanpur Nagar, Lucknow, Mathura, Meerut, Moradabad, Saharanpur, Varanasi and ARTO Gautambudh Nagar.

<sup>3</sup> RTO Azamgarh, Faizabad, Jhansi, Mirzapur, ARTO Bijnore, Chandauli and Muzaffar Nagar.

<sup>4</sup> ARTO Auraiya, Bagpat, Barabanki, Budaun, Hardoi, Hathras, Kanpur Dehat, Mau, Raebareli, Sultanpur and Unnao.

entry conference held on 21 August, 2009. The Department was represented by Joint Transport Commissioner. The findings were discussed with the Department in the exit conference held on 22 June, 2010. The Department was represented by the Joint Transport Commissioner (Administration). The views of the Department have been incorporated in the relevant paragraphs.

### Audit findings

### System deficiencies

#### 4.5.7 Unrealistic budget estimates

As per the provisions of para 25 of the Uttar Pradesh Budget Manual, in the preparation of the budget the aim is to achieve as close an approximation to the actual as possible. It is, therefore, essential that not merely should all items of revenue and receipts that can be foreseen be provided but also only so much, and no more, should be provided as is expected to be realised, including past arrears in the budget year.

We observed that there was shortfall in revenue realised as compared to budget estimates during the five years from 2004-05 to 2008-09 though there was gradual increase in actual receipts. This shows that the budget estimates were not based on actual receipts of the previous year as

required under the provisions of the Budget Manual. The details are given below:

( ` in crore)

Year	Budget estimates	Actual revenue realised	Shortfall as against budget estimate (+/-)	Percentage of variation
2004-05	1,084.49	857.58	(-) 226.91	(-) 20.92
2005-06	1,241.74	1,070.39	(-) 171.35	(-) 13.80
2006-07	1,352.00	1,126.30	(-) 225.70	(-) 16.69
2007-08	1,533.30	1,255.49	(-) 277.81	(-) 18.12
2008-09	1,600.00	1,391.15	(-) 208.85	(-) 13.05

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that the special token scheme was effective on goods carriages from August 2001 to November 2003 due to which ` 144 crore of revenue was realised under this scheme in 2002-03. A self declaration scheme was also effective in 2005-06 in place of the above scheme. The Government has not reduced the targets of the Department even after the schemes ceased to be in existence and targets were fixed by the Government on the higher side since 2006-07 which were not achievable. The Department had requested the Government in October 2009 to make the targets practical and justified.

**The Government may prepare the budget estimates based on the procedures prescribed in the Budget Manual.**

#### 4.5.8 Position of arrears

**4.5.8.1** The position of arrears during the period 2004-09 as furnished by the department is shown in the following table :

( ` in crore)

Year	UPSRTC	Private parties	Total
2004-05	613.98	25.66	639.64
2005-06	688.07	23.70	711.77
2006-07	732.47	23.00	755.47
2007-08	734.28	71.74	806.02
2008-09	732.47	72.06	804.53

We observed that the balance sheet of the Uttar Pradesh State Road Transport Corporation (UPSRTC) showed profit ranging between ` 3.87 crore and 40.71 crore during the years 2004-08. But the UPSRTC did not pay the arrears due to the Department and the latter also did not realise them from UPSRTC, as the arrears have increased by ` 118.49 crore between 2005 and 2009. Further, we observed that the Department did not raise maximum penalty of ` 55.81 crore on the unpaid amount of dues during the years 2004-09.

Similar laxity on the part of the Department led to abnormal enhancement in arrears from private parties by ` 48.74 crore during the year 2007-08. Reasons for non-realisation of arrears from UPSRTC as well as other parties were not on record.

#### Sixteen RTOs/ARTOs

Under the provisions of Section 20 of the UPMVT Act, arrears of any tax or additional tax or penalty shall be recoverable as arrears of land revenue. No provision for a time frame regarding issue of RCs was made in the Rules and the Department also had no system to monitor the issue of the RCs within a specified time frame.

**4.5.8.2** We observed that in 1,005 cases<sup>5</sup>, recovery certificates (RC) amounting to ` 4.23 crore<sup>6</sup> for dues pertaining to the years 1983 onwards were issued during the period 2004 to 2009 to *tehsils* against motor

vehicle owners who had defaulted on their dues. The RCs were issued for recovery of the tax/additional tax as arrears of land revenue under the said provisions. These RCs were returned by the *tehsils* without recovery of the outstanding dues with remarks like the vehicle owner had passed away, the defaulter had no property, the defaulter did not reside at the address given in the RC, etc. The absence of a time frame and monitoring mechanism led to delay in issue of the RCs and affected the recovery.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that the matter of enhanced additional tax on passenger vehicles was under litigation which resulted in non-realisation of revenue. A proposal in this regard for one time settlement has been sent to the Government. In the cases of RCs returned without

<sup>5</sup> RTO Agra-14, Azamgarh-13, Faizabad-99, Meerut-453, Saharanpur-44, Varanasi-33, ARTO Barabanki-10, Bijnore-131, Budaun-130, Etawah-3, Fatehpur-20, Hardoi-6, Hathras-3, Kanpur Dehat-4, Mathura-29 and Sultanpur-13.

<sup>6</sup> Appendix–XII.

realisation of dues the Department accepted the observation and replied that action would be taken after scrutiny.

**The Government may consider prescribing a system for review of these arrears, issue of recovery certificates in time and initiate special drives to recover these arrears.**

#### 4.5.9 Computerisation

The Department decided (1998-99) to computerise its offices in the State to carry out its work promptly and systematically. Between 1998-99 to 2008-09, the Government sanctioned and released ` 11.86 crore to the Department for the task of computerisation and the Department paid ` 8.93 crore to the executing agencies, namely the National Informatics Center (NIC) and its allied institutions. On test check of the progress of computerisation work in 22 offices<sup>7</sup>, we observed that the work of the enforcement wing, additional tax (passenger vehicles), issue of recovery certificate and No Objection Certificates etc. was not being carried out through computers.

After we pointed this out to the Department and the Government in June 2010, the Department stated during the exit conference that this work was executed by the project implementing agency, NIC, through its limited human resources due to which the initial progress of the work was slow. At present, all offices have been computerised. The enforcement module has not been developed because there was lack of mutual consent between the Transport Departments of different States.

After receiving this reply we again verified the extent of computerisation in three major RTOs viz. Allahabad, Kanpur and Lucknow in November 2010 and observed that there was only partial computerisation of work in these major RTOs. The issue of driving licenses, demand notices and recovery certificates and the enforcement work was still being done manually. Thus, even after the lapse of more than 10 years and after incurring substantial expenditure, the Department has not achieved the objectives of computerisation.

**The Government may ensure complete computerisation of all the functions of the Transport Department.**

#### 4.5.10 Non-existence of departmental manual

For the effective and efficient working of any Department, a manual prescribing duties and responsibilities of staff, procedures to be followed and details of different registers/returns to be maintained is essential.

We observed that no departmental manual exists in the Department. The Department constituted a committee in August 2008 for preparation of a departmental manual but even after lapse of two years from the date of constitution of the committee, not a single meeting was held till June 2010 which indicates laxity on the part of the Department. The

<sup>7</sup> RTO Agra, Allahabad, Bareilly, Faizabad, Gorakhpur, Lucknow, Mirzapur, Meerut, Saharanpur, Varanasi, ARTO Auraiya, Barabanki, Bijnore, Chandauli, Etawah, Fatehpur, Hardoi, Hathras, Jaunpur, Kanpur Dehat, Mau and Raebareli.

absence of a laid down system of duties, responsibilities, procedures and internal control would result in the Department not being aware of weak functional areas to enable it to take timely remedial action.

**The Government may consider taking necessary steps for preparation of a Departmental manual.**

#### 4.5.11 Working of Internal Audit Wing

Internal audit wing (IAW) is a vital component of the internal control mechanism and is generally defined as the control of the all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well.

The IAW attached to the Transport Department had two Sr. Auditors and three Auditors as against the sanctioned staff of one Assistant Audit Officer, two Sr. Auditors and four Auditors. The IAW was required to inspect 131 units annually. Out of 655 units to be inspected during the period 2004-05 to 2008-09, the IAW inspected only 148 units. The year wise breakup of the inspection reports (IR)/paragraphs issued by the IAW during the period 2004-05 to 2008-09 is as follows:

Period	Opening balance		Addition during the year		Clearance		Closing balance		Percentage of clearance	
	No. of IRs	No. of paras	No. of IRs	No. of paras	No. of IRs	No. of paras	No. of IRs	No. of paras	IRs	Paras
2004-05	333	2,749	24	349	1	43	356	3,055	0.28	1.39
2005-06	356	3,055	26	298	-	128	382	3,225	-	3.82
2006-07	382	3,225	28	372	-	120	410	3,477	-	3.34
2007-08	410	3,477	28	368	-	-	438	3,845	-	-
2008-09	438	3,845	32	332	-	-	470	4,177	-	-

The above table shows that the percentage of clearance of IRs was nil except in 2004-05 (0.28 *per cent*) and clearance of paragraphs ranged between zero and 3.82 *per cent*. At the end of March 2009, 470 IRs with 4,177 paras were outstanding for remedial measures. Increasing trend of outstanding objections, arrears of inspection and vacancies in IAW indicated that this vital internal control was not robust.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that a proposal for sanction of required officers/officials for the IAW in addition to the present staff is being sent to the Government. The Department did not furnish any reason for the arrears of inspection and low clearance of internal audit observations (October 2010).

**The Government may consider strengthening the IAW and ensuring time bound action by the Transport officials on the objections raised by the IAW so as to safeguard interest of revenue and avoid recurrence of the mistakes pointed out.**

#### 4.5.12 Non-existence of provision for levy of Accident Relief Fund (ARF) on school bus

##### Nineteen RTOs/ARTOs<sup>8</sup>

Under the provisions of the UPMVT Act, for the purpose of providing relief to passengers or other persons suffering casualty in any accident of a public service vehicle, the State Government shall establish a fund to be known as “Uttar Pradesh Road Transport Accident Relief Fund” to provide relief to affected passengers or to heirs of the passengers, as the case may be. Where a public service vehicle is wholly or partially exempted from the payment of additional tax under this Act, a surcharge for the purpose of the fund shall be levied at the rate of five *per cent* of the additional tax that would have been payable on such vehicle and credited to the said fund. School buses are exempted from levy of additional tax, but there is no provision for levy of surcharge on school buses for the purpose of the said fund.

We observed that 2,043 school buses were plying for carriage of students during the year 2004-09 but in the absence of provision for levy of ARF on school buses, students or their guardians are not entitled to any relief from the said fund in case of any accident.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit

conference that school buses are not covered under public service vehicles, therefore, students or their guardians are not entitled to any relief from the said fund in case of any accident.

**The Government may consider prescribing a provision for levy of surcharge in case of school buses on account of ARF so that students or their guardians can be entitled to get relief in case of any accident.**

<sup>8</sup> RTO Agra, Azamgarh, Bareilly, Gorakhpur, Jhansi, Moradabad, Saharanpur, Varanasi, ARTO Bagpat, Chandauli, Etawah, G.B.Nagar, Hardoi, Hathras, Kanpur Dehat, Raebareli, Mathura, Mau and Unnao.

#### 4.5.13 Overloaded goods vehicles released without offloading the excess load

##### Twelve RTOs/ARTOs<sup>9</sup>

Under the provisions of the MV Act, no person shall drive or cause or allow to be driven in any public place any motor vehicle or trailer the laden weight of which exceeds the gross vehicle weight specified in the certificate of registration. Further, offloading of the vehicle is required, if it is found overloaded during checking by the enforcement wing and relevant details of the overloading should be endorsed on the permit of the vehicle under intimation to the permit issuing authority.

We observed that 21,218 goods vehicles challaned/ seized for overloading during the period 2004 to 2009 were released without reducing/ offloading the excess weight in contravention of the said provisions as a copy of the requisite communication from the Enforcement Wing was not found on

record. Plying of overloaded vehicles is hazardous to traffic and human life.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that the offence of overloading is compoundable under section 194 of CMV Act and instructions are issued to release the vehicles after depositing the compounding fee and offloading the overload under section 114 of CMV Act.

**The Government may consider prescribing a mechanism for ensuring off loading the overload before the vehicle is allowed to go ahead.**

#### Compliance deficiencies

#### 4.5.14 Short levy of additional tax on passenger vehicles of other states

##### ARTOs Mathura and GB Nagar

Under the MV Act read with the UPMVT Act, in the absence of bilateral agreement, additional tax on public service vehicle of other State Transport Undertakings shall be levied and paid at the rate of ` 961 per seat per quarter on A class routes. In case of states having bilateral agreements, a permit granted in any one State shall not be valid in any other State unless countersigned by the State Transport Authority of that other State.

**4.5.14.1** We observed that though there is no bilateral agreement between UP and Delhi State, 159 vehicles of Delhi Transport Corporation were plying in UP between April 2007 and March 2009 and they paid tax and additional tax of ` 87.14 lakh at a lesser

rate instead of ` 3.70 crore payable at the specified rate. However, the concerned ARTOs failed to detect short remittance of tax and additional tax. This resulted in short levy of tax and additional tax of ` 2.83 crore.

<sup>9</sup> RTO Allahabad -165, Bareilly -167, Faizabad -4,710, Jhansi -171, Meerut -110, Mirzapur -59, Varanasi -8,907, ARTO Auraiya -81, Barabanki -3,497, Bijnore -3,249, Raebareilly -36 and Sultanpur -66.

**RTO Agra**

**4.5.14.2** We observed that UP State entered into bilateral agreements with Madhya Pradesh (MP) and Rajasthan, but 80 vehicles of MP and Rajasthan were plying in UP between April 2007 to March 2009 without permits countersigned by the State Transport Authority (STA) of UP. These vehicles paid additional tax of ₹ 1.86 crore instead of ₹ 3.03 crore payable at the specified rate. However, the concerned RTO failed to detect short remittance of tax and additional tax. This resulted in short levy of additional tax of ₹ 1.17 crore.

After we pointed this out to the Department and the Government in June 2010, the Department replied that execution of bilateral agreement between Secretary/Principal Secretary, Transport Department of Delhi and Uttar Pradesh is in progress. The reply is however, silent on the short realisation of additional tax pointed out by us.

**4.5.15 Short assessment of additional tax on stage carriage****Seventeen RTOs/ARTOs<sup>10</sup>**

Under the provisions of the UPMVT Act, additional tax is leviable on a stage carriage on the total distance covered in a quarter at the prescribed rates per seat per quarter. For this purpose, 50 per cent of the sanctioned standing capacity of a stage carriage shall be reckoned as additional seating capacity, with the fraction of a seat being counted as one seat. Under the UPMVT Act, every operator of a stage carriage shall within such time and in such manner as may be prescribed, submit a table regulating timings of arrival and departure of his stage carriage, as well as the number of single trips made in a quarter and such other particulars as required by the taxation officer.

**4.5.15.1** We observed that 748 vehicle owners deposited additional tax of ₹ 11.13 crore on the basis of kilometer permitted to be operated in a quarter against the additional tax of ₹ 18.53 crore leviable on the basis of distance covered by the vehicles in accordance with the table regulating timings submitted by the owners of these vehicles. The concerned RTOs/ARTOs failed to detect short remittance of additional tax and

recover the same from the vehicle owners. This resulted in short realisation of ₹ 7.40 crore<sup>11</sup>.

**Five RTOs/ARTOs<sup>12</sup>**

**4.5.15.2** We observed that the Department levied additional tax on actual seating capacity of stage carriages ignoring standing capacity as prescribed by the UPMVT Act, leading to short levy of additional tax of ₹ 1.32 crore<sup>13</sup> on 243 vehicles.

<sup>10</sup> RTO Agra, Bareilly, Gorakhpur, Jhansi, Kanpur Nagar, Lucknow, Meerut, Moradabad, Varanasi, ARTO Balrampur, Barabanki, Basti, Budaun, Chandauli, Jaunpur, Mathura and Raebareli.

<sup>11</sup> Appendix-XIII.

<sup>12</sup> RTO Moradabad, ARTO Etawah, Hardoi, Mathura and Unnao.

<sup>13</sup> Appendix-XIV.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that calculation of additional tax was done by taking a quarter as 90 days on the basis of 30 days in a month as specified in the General Clauses Act.

We do not agree with the reply as one quarter of 90 days does not reflect the count of 365 days in a year and the General Clauses Act specifies the number of days in a month but not in a quarter. The Department has not replied on our observation on short levy of additional tax on account of less counting of seating capacity.

#### 4.5.16 Non-levy of tax on laden weight of the vehicle

##### Sixteen RTOs/ARTOs<sup>14</sup>

Under the provisions of the UPMVT Act, tax in addition to other taxes, at the rate of ₹ 45 per metric ton (MT) or part thereof on registered gross laden weight (GLW) of the vehicle per quarter shall be leviable on public service vehicles plying for conveyance of limited number of passengers and the transport of limited quantity of passenger goods. In case tax is not deposited within the prescribed time, penalty not exceeding 25 per cent of the amount due, shall be levied.

We observed that for 8,415 public service vehicles plying for conveyance of limited number of passengers and transport of limited quantity of passengers' goods, the Department did not levy tax of ₹ 2.18 crore<sup>15</sup> on the gross laden weight of the vehicles. Besides this, the corresponding

penalty of ₹ 54.53 lakh was also to be levied.

After we pointed this out to the Department and the Government in June 2010, the Department accepted the observation and replied during the exit conference that action for realisation of the amount would be taken. A report on recovery has not been received (October 2010).

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<sup>14</sup> RTO Allahabad, Azamgarh, Bareilly, Faizabad, Ghaziabad, Gorakhpur, Jhansi, Meerut, Mirzapur, Varanasi, ARTO Budaun, Basti, Farrukhabad, Hardoi, Jaunpur and Pratapgarh.

<sup>15</sup> Appendix-XV.

#### 4.5.17 Loss due to vehicles plying without certificate of fitness

##### Seventeen RTOs/ARTOs<sup>16</sup>

Under the provisions of the MV Act and the CMV Rules made thereunder, a transport vehicle shall not be deemed to be validly registered unless it carries a certificate of fitness. A fitness certificate granted in respect of a newly registered transport vehicle is valid for two years and is required to be renewed every year thereafter on payment of the prescribed fee of ₹ 300, ₹ 400 and ₹ 500 including fee of ₹ 100 for issuing certificate of fitness for light, medium and heavy vehicles respectively. In case of default, an additional amount equal to testing fee is also leviable. Plying a vehicle without certificate of fitness is compoundable under the MV Act at the rate of ₹ 2,500 per offence.

We observed from the computerised database that 23,099 vehicles plied between 2004 and 2009 without valid fitness certificates. Plying of such vehicles compromised public safety. These vehicles were liable for levy of fitness fee of ₹ 2.95 crore<sup>17</sup> and imposition of penalty of ₹ 5.77 crore.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that notices to the owners of such vehicles have been sent. Further progress has not been received (October 2010).

#### 4.5.18 Non-application of new registration mark

##### Twenty two RTOs/ARTOs<sup>18</sup>

Under the provisions of the MV Act and CMV Rules made thereunder, when a motor vehicle registered in one State has been kept in another State for a period exceeding twelve months, the owner of the vehicle shall apply to the registering authority, within the jurisdiction of that State for the assignment of a new registration mark and shall present the certificate of registration to that registering authority. The fees shall be payable for assignment of new registration in case of heavy, medium, light vehicle and motor cycle at prescribed rates.

We observed that 4,292 heavy/medium/light motor vehicles and motor cycles registered in other states were brought into Uttar Pradesh (UP) with No Objection Certificate (NOC) of other states and were plying in UP for a period of more than twelve months. Though the owners of the vehicles were paying tax in UP for more than one year, they had not applied for assignment of new registration mark. The enforcement wing did not

<sup>16</sup> RTO Agra Azamgarh, Bareilly, Faizabad, Ghaziabad, Gorakhpur, Jhansi, Lucknow, Moradabad, Saharanpur, Varanasi, ARTO Barabanki, Bijnore, Hardoi, Mathura, Raebareli and Unnao.

<sup>17</sup> Appendix-XVI.

<sup>18</sup> RTO Allahabad, Azamgarh, Bareilly, Faizabad, Jhansi, Meerut, Mirzapur, Moradabad, Varanasi, ARTO Auraiya, Bagpat, Barabanki, Bijnore, Chandauli, Etawah, GB Nagar, Hathras, Jaunpur, Kanpur Dehat, Mathura, Mau and Raebareli.

initiate action to trace out these vehicles. Thus, the Government was deprived of revenue of ₹ 22.16 lakh<sup>19</sup>.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that the fee is chargeable for assignment of new registration mark of UP. Since new registration marks have not been assigned to such vehicles, the question of loss of the assignment fee does not arise. We do not agree as it is mandatory for the owner of the vehicle to obtain new registration mark of UP after paying the requisite assignment fee.

#### 4.5.19 Loss of revenue due to non-renewal of registration of forwarding/travel agents

##### Four RTOs<sup>20</sup>

Under the provisions of the MV Act and UPMV Rules no person shall engage himself as an agent or a canvasser, in the sale of tickets for travel by public service vehicle or otherwise, soliciting customers of such vehicles or as an agent in the business of collecting, forwarding or distributing goods unless he obtains a licence from the competent authority on payment of fee of ₹ 1,000. Such licence is required to be renewed after five years. Besides, security of ₹ 10,000 is also to be deposited. The officers of the Transport Department shall be liable for inspection of forwarding agents, to ensure sufficient arrangement of public facilities within their region.

We observed that 132 forwarding agents were conducting their business between 2004 to 2009 without renewal of licence. The Department failed to register these agents and realise security deposit of ₹ 13.20 lakh and fees of ₹ 1.37 lakh<sup>21</sup>.

After we pointed this out to the

Department and the Government in June 2010, the Department accepted the observation during the exit conference and replied in June 2010 that action would be taken after verification.

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<sup>19</sup> Appendix-XVII.

<sup>20</sup> Bareilly, Faizabad, Gorakhpur and Kanpur Nagar.

<sup>21</sup> Appendix-XVIII.

#### 4.5.20 Non-levy of penalty due to violation of terms and condition of permit

##### Transport Commissioner (TC)

Under the provisions of the MV Act and the UPMV Rules, the owner of the contract carriage vehicle is liable for submission of passenger's list and quarterly abstract of the vehicle log book as required under the terms and conditions of the permit issued by the competent authority. If the owner of the vehicle failed in submitting such document to the permit issuing authority he may be punished by imposition of maximum penalty of ₹ 2,500 for violation of terms and conditions of the permit.

We observed that 17,956 permit holders failed to provide the requisite documents to the Uttar Pradesh State Transport Authority (UPSTA) during the period 2004 to 2008. The Department failed to impose and realise the maximum penalty of ₹ 4.49 crore for non-

submission of requisite documents by the permit holders.

We pointed this out to the Department and the Government in June 2010, no reply has been received from the Department (October 2010).

#### 4.5.21 Revenue not realised due to non-auction of seized vehicles

##### Nine RTOs/ARTOs<sup>22</sup>

Under the provisions of section 22 of the UPMVT Act, vehicles seized by the enforcement wing of the Department are liable to pay dues and compounding fee imposed thereon and get it released. Where owners of vehicles did not turn up to pay dues, these vehicles may be auctioned after 45 days from the date of seizure and revenue realised should be adjusted towards the tax, additional tax, penalty and the expenses of such auction. The balance, if any, shall be refunded to the owner of the vehicle.

We observed that 92 vehicles were seized under the provisions of the UPMVT Act during the period December 1997 and March 2009 against which dues of ₹ 35.29 lakh<sup>23</sup> remained to be realised. The owners of these vehicles did not turn up to pay the dues within 45 days from the date of seizure. The

concerned offices including the RTOs/ARTOs also did not initiate action required under the Act to realise the dues through auction of these vehicles despite lapse of three months to 12 years from the date of seizure.

After we pointed this out to the Department and the Government in June 2010, the Department accepted the observation during the exit conference and replied in June 2010 that action would be taken according to the Rules. Further report has not been received (October 2010).

<sup>22</sup> RTO Agra, Azamgarh, Mirzapur, Moradabad, ARTO Barabanki, Bijnore, Jaunpur, Mathura and Sultanpur.

<sup>23</sup> Appendix-XIX.

#### 4.5.22 Non-creation of Accident Relief Fund (ARF)

Under the UPMVT Act, for the purpose of providing relief to passengers or other persons suffering casualty in any accident of a public service vehicle, the State Government shall establish a fund to be known as “Uttar Pradesh Road Transport Accident Relief Fund” to provide relief to affected passengers or to heirs of the passengers, as the case may be. As per the Act an amount equivalent to 1 out of 21 parts of the additional tax leviable shall be credited to the Accident Relief Fund.

We observed from the Annual Report of the Department that additional tax of ₹ 1,643 crore was levied during 2004-09. Out of this ₹ 78.24 crore was to be credited to the ARF. Despite our pointing this out in the Report of the Comptroller and Auditor General of India for the year

2002-03 (Para 4.2.13), the ARF has not been created so far.

After we pointed this out to the Department and the Government in June 2010, the Department accepted the objection and replied in June 2010 that action would be taken to establish the ARF. Further report has not been received (October 2010).

#### Other issues

#### 4.5.23 Manpower management

##### Eight RTOs/ARTOs

We observed<sup>24</sup> that during the period of review, in four RTOs/ARTOs<sup>25</sup>, 66 officials in excess of the sanctioned strength were posted while in four other RTOs/ARTOs<sup>26</sup> 45 posts were vacant. This reflects poor manpower management. We feel that the Department should evaluate manpower requirements periodically to ensure maximum effective deployment.

After we pointed this out to the Department and the Government in June 2010, the Department replied during the exit conference that staff position at the State level is not more than sanctioned strength. Posting of staff in regional offices is done taking into consideration the workload. We do not agree with the reply as an analysis of the revenue receipts of these eight offices showed that despite having 44 officials in excess of the sanctioned strength, the revenue receipts of Lucknow show a lower percentage increase<sup>27</sup> in the past three years than Jhansi which has a shortage of 26 officials. This indicates that there was no rationalisation of manpower after evaluating requirements.

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<sup>24</sup> Appendix-XX.

<sup>25</sup> RTO Lucknow, Meerut, Mirzapur and ARTO Sultanpur.

<sup>26</sup> RTO Jhansi, ARTO Auraiya, Budaun and Mau.

<sup>27</sup> Appendix-XXI.

#### 4.5.24 Challenged cases not sent to court

##### Five RTOs/ARTOs<sup>28</sup>

Under the UPMVT Act, offences which are not compounded by the authorities of the Transport Department are required to be sent to the Court for necessary action in the matter. Further, according to Section 468 of the Criminal Procedure Code, 1973 (CrPC) the court will not take cognisance of the offences, which are punishable with fine only, after expiry of six months from the date of commencement of the offence.

We observed that 282 un-compounded cases of offences punishable with fine only were either not sent to the court before expiry of six months or sent after the expiry of the specified period during 2004-09.

This resulted in loss of ` 20.52 lakh<sup>29</sup> in the shape of compounding fees leviable under the Act.

#### 4.5.25 Late deposit of revenue

##### Four RTOs<sup>30</sup>

The Financial Handbook provides that all moneys received by a Government servant in his official capacity will be deposited without any undue delay into the treasury or bank and credited into Government account.

We noticed that a sum of ` 14.87 crore collected during the period between 13 May, 2004 and 30 March, 2009 was deposited into the

treasury with delays ranging from one day to nine days. The amount involved ranged between ` 2,746 and ` 1.77 crore. Delay in deposit of Government revenue was in contravention of the said provisions.

After we pointed this out to the Department and the Government in June 2010, the Department accepted the observation during the exit conference and replied that it would be ensured that the revenue collected is deposited timely in future.

<sup>28</sup> RTO Bareilly, Mirzapur, ARTO Auraiya, Barabanki and Muzaffarnagar.

<sup>29</sup> Appendix-XXII.

<sup>30</sup> Gorakhpur, Kanpur Nagar, Lucknow and Mirzapur.

#### 4.5.26 Non-maintenance of stolen and recovered vehicle register

##### Thirteen RTOs/ARTOs<sup>31</sup>

Under the UPMV Rules, the Director General of Police will submit a monthly return on or before the 15<sup>th</sup> of each month to the STA covering the period of the preceding calendar month, providing information regarding vehicles stolen and recovered in the entire State which is in the knowledge of the police. Further, the monthly return will be prepared in triplicate and sent to the STA. After receipt of the return, the STA will send copies of it to each registering authority. Under Rule 53(4) the Secretary of RTA and each registering authority will maintain a register of vehicles stolen and recovered based on the information received.

We observed that these offices had not maintained the register of stolen and recovered vehicles during the period 2004-09. In the absence of these registers, the registration and taxation authorities were not aware of the details of stolen and recovered vehicles to enable them to close/reopen the work

related to such vehicles.

After we pointed this out to the Department and the Government in June 2010, the Department accepted the observation during the exit conference and replied in June 2010 that the action would be taken. Further report has not been received (October 2010).

#### 4.5.27 Conclusion

We observed that a manual specifying the working procedure, control of records, specific duties and responsibilities of authorities does not exist in the Department. Effective and efficient mechanism for recovery of arrears, levy of additional tax, issue of certificate of fitness, assignment of new registration mark etc. is lacking. Issues like overloading of vehicles, non-creation of ARF and late remittance of revenue were noticed.

#### 4.5.28 Recommendations

The Government may consider:

- preparing budget estimates based on the procedures prescribed in the budget manual;
- prescribing a system for review of arrears, issue of recovery certificates in time and initiate special drives to recover these arrears;
- ensuring execution of all the functions of the Transport Department through the computerised system;
- taking necessary steps for preparation of the departmental manual;

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<sup>31</sup> RTO Allahabad, Bareilly, Faizabad, Meerut, Mirzapur, Lucknow, ARTO Auraiya, Bijnore, GB Nagar, Jaunpur, Mau, Raebareli and Sultanpur.

- strengthening the IAW and ensuring time bound action by the Transport officials on the objections raised by the IAW in the interest of revenue and avoid recurrence of mistakes pointed out;
- prescribing a provision for levy of surcharge in case of school buses on account of ARF in the interest of social security;
- making a mechanism to prevent overloading; and
- ensuring strict adherence of provisions of Acts/Rules.

## CHAPTER-V STAMP DUTY AND REGISTRATION FEE

### 5.1 Tax administration

Receipts from Stamp Duty and Registration Fee in the State are regulated under the Indian Stamp Act (IS Act) 1899, Indian Registration Act (IR Act) 1908, the UP Stamp (Valuation of Property) (SVOP) Rules, 1997 and circulars and orders of the Government of Uttar Pradesh, issued from time to time. Stamp duty is leviable on the execution of instruments at the prescribed rates. Evasion of stamp duty is commonly effected through under valuation of properties, non-presentation of documents in the office of the registering authority and non/short payment of stamp duty by the executants on the documents submitted before the registering authorities.

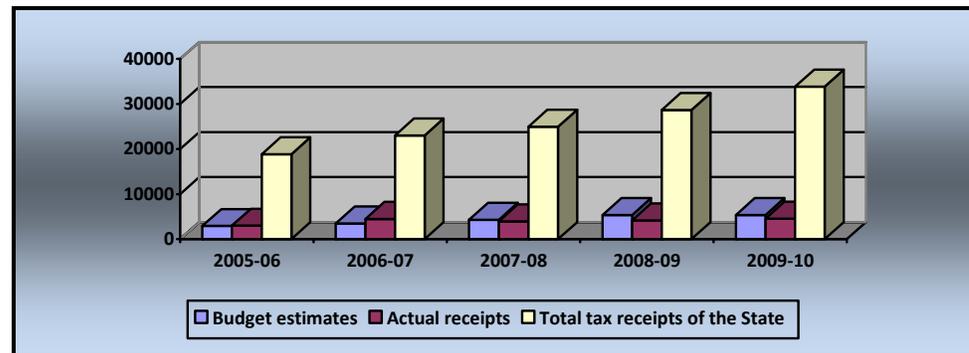
The determination of policy, monitoring and control at the Government level is done by the Principal Secretary, *Kar evam Nibandhan*. The Inspector General is the head of the Registration Department (IGR) and exercises overall superintendence and control over the working of the Department. He is assisted by an Additional Inspector General (Addl. IG), 17 Deputy Inspector Generals (DIGs) at the divisional level, 63 Assistant Inspector Generals (AIGs) at the district level and 347 Sub-Registrars (SRs) at the district and *tehsil* level.

### 5.2 Trend of receipts

Actual receipts from Stamp and Registration Department during the years 2005-06 to 2009-10 along with the total tax/non-tax receipts during the same period is exhibited in the following table and graph:

( ₹ in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual Receipts vis-à-vis total tax/non-tax receipts
2005-06	2,928.00	2,996.78	68.78	2.35	18,857.90	15.89
2006-07	3,500.00	4,513.67	1,013.67	28.96	22,997.97	19.63
2007-08	4,276.00	3,976.68	(-) 299.32	(-) 7.00	24,959.32	15.93
2008-09	5,370.53	4,138.27	(-) 1,232.26	(-) 22.94	28,658.97	14.44
2009-10	5,351.02	4,562.23	(-) 788.79	(-) 14.74	33,877.60	13.47



### 5.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 594.83 crore. The details of arrears outstanding for more than five years were not available with the Department. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

(₹ in crore)

Year	Opening balance of arrears	Amount collected during the year	Closing balance of arrears
2005-06	216.38	61.55	215.02
2006-07	215.02	60.03	246.50
2007-08	246.50	101.06	213.25
2008-09	213.25	109.08	553.05
2009-10	553.05	129.87	594.83

Source: Figures provided by the Department (November 2010).

It is evident from the above table that during the years 2005-06 to 2009-10, the amount of arrears was increasing but the collection of arrears by the Department was very low.

**We recommend that the Government may consider taking appropriate steps for early recovery of the arrears.**

### 5.4 Cost of collection

The gross collection in respect of Stamp Duty and Registration Fee, expenditure incurred on collection and percentage of such expenditure to the gross collection during the years 2007-08, 2008-09 and 2009-10 along with the relevant all India average percentage of expenditure on collection to gross collection for 2008-09 are mentioned below:

(₹ in crore)

Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of cost of collection to gross collection	All India average percentage of cost of collection 2008-09
Stamp duty and registration fee	2007-08	3,976.68	72.71	1.83	2.77
	2008-09	4,138.27	76.01	1.84	
	2009-10	4,562.23	120.73	2.65	

The cost of collection of Stamp Duty and Registration Fee is below the all India average.

### 5.5 Revenue impact of audit

During the last five years (excluding the report of the current year), our Audit Reports had pointed out non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, application of incorrect rate of tax, incorrect computation etc. with revenue implication of ₹ 121.90 crore in 1,506 cases. Of these, the Department/Government had accepted audit observations in 20 cases involving ₹ 7.73 lakh which has since been recovered. The details are shown in the following table:

( ` in crore)

Year	No. of units audited	Amount objected		Amount accepted		Amount recovered	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2004-05	241	195	3.76	--	--	--	--
2005-06	122	150	3.06	--	--	--	--
2006-07	186	233	7.08	--	--	--	--
2007-08	210	320	93.30	--	--	--	--
2008-09	329	608	14.70	20	0.08	20	0.08
<b>Total</b>	<b>1,088</b>	<b>1,506</b>	<b>121.90</b>	<b>20</b>	<b>0.08</b>	<b>20</b>	<b>0.08</b>

## 5.6 Results of audit

Test check of the records of 325 units during 2009-10 relating to Stamp and Registration Department revealed under assessment of stamp duty and other irregularities involving ` 13.52 crore in 620 cases which fall under the following categories:

( ` in crore)

Sl. No.	Categories	Number of cases	Amount
1.	Short levy of stamp duty due to misclassification of documents	297	5.75
2.	Short levy of stamp duty and registration fee due to under valuation of properties	255	5.90
3.	Other irregularities	68	1.87
<b>Total</b>		<b>620</b>	<b>13.52</b>

During the course of the year, the Department accepted underassessment and other deficiencies of ` 3.56 lakh in 19 cases, pointed out in audit in earlier years. An amount of ` 3.56 lakh was realised in 19 cases during the year 2009-10.

A few illustrative cases involving ` 68.61 lakh are mentioned in the following paragraphs.

## 5.7 Audit observations

*Our scrutiny of records in the offices of Stamp and Registration Department revealed cases of short levy of stamp duty due to incorrect valuation and misclassification of documents as mentioned in succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions are pointed out by us each year, but not only do the irregularities persist; these remain undetected till we conduct an audit. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.*

## 5.8 Short levy of stamp duty due to incorrect valuation

### Ten Sub-Registrars

Under the Indian Stamp Act, 1899 (as amended in its application to Uttar Pradesh), stamp duty on a deed of conveyance is chargeable either on the market value of the property or on the value of consideration set forth therein, whichever is higher. As per the Uttar Pradesh Stamp (Valuation of Property) Rules 1997, market rates of various categories of land situated in a district are to be fixed biennially by the Collector concerned for the guidance of the Registering Authorities.

We observed that in 10 cases deeds of conveyance were registered for considerations at lower rates than at what they should have been registered. Of them seven deeds relating to non-agricultural land were registered at agricultural rates, one deed relating to residential land and building was registered at industrial rate and two deeds of road side land were registered at away from road sides rates. The incorrect valuation of property resulted in short levy of stamp duty amounting to ₹ 59.95 lakh as shown in Appendix-XXIII.

We reported the matter to the Department and Government between May 2008 and December 2009; their reply has not been received (October 2010).

## 5.9 Short levy of stamp duty due to misclassification of document

### Sub-Registrar Unchahar, Raibareilly

The Indian Stamp Act, 1899, provides for correction of purely clerical error in an instrument, chargeable with duty and in respect of which the proper duty has been paid. Further, the Act provides that stamp duty shall be charged on documents relating to transfer of property right as “conveyance”.

We observed in October 2009 that a deed<sup>1</sup> of conveyance was misclassified as correction deed by the Department. The Department charged stamp duty of ₹ 1,000 instead of ₹ 8.67 lakh on the document which resulted in short levy of stamp duty of ₹ 8.66 lakh.

We reported the matter to the Department and the Government in December 2009; their reply has not been received (October 2010).

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<sup>1</sup> Deed No. 383 registered on 9.4.2009.

## CHAPTER-VI OTHER TAX AND NON-TAX RECEIPTS

### 6.1 Results of audit

Test check of the records of the offices of Irrigation, Medical and Public Health and Forest Department conducted during the year 2009-10, revealed non-realisation of centage charges, royalty, non-increasing of medical charges, etc. of ₹ 478.43 crore in 421 cases which fall under the following categories:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
<b>Irrigation Department</b>			
1.	Non-realisation of centage charges	2	4.04
2.	Non-realisation of royalty	3	0.14
3.	Other irregularities	47	9.16
	<b>Total</b>	<b>52</b>	<b>13.34</b>
<b>Medical and Public Health Department</b>			
1.	Non-increasing of medical charges at the rate of 10 per cent per annum	48	1.19
2.	Non-imposition of penalty on un-registered genetic centres	7	0.08
3.	Other irregularities	60	1.92
	<b>Total</b>	<b>115</b>	<b>3.19</b>
<b>Forest Department</b>			
1.	<b>Receipts from Forest Department (A review)</b>	1	33.93
2.	Miscellaneous losses	86	204.09
3.	Idle investment, idle establishment, blocking of funds	31	6.13
4.	Regulatory issues	11	4.30
5.	Pending recoveries	79	171.32
6.	Non-achievement of objectives	1	4.31
7.	Other irregularities	45	37.82
	<b>Total</b>	<b>254</b>	<b>461.90</b>
	<b>Grand total</b>	<b>421</b>	<b>478.43</b>

During the year 2009-10, the Department accepted and recovered ₹ 3.82 crore in 22 cases which were pointed out in earlier years.

A review on **Receipts from Forest Department** with financial impact of ₹ 33.93 crore and a few illustrative cases involving ₹ 1.90 crore are mentioned in the succeeding paragraphs.

## 6.2 Receipts from Forest Department

### Highlights

- The volume factor of the Eucalyptus trees having diameter of more than 45 cm was not decided simultaneously with the change of felling cycle. This resulted in short levy of royalty of ` 4.94 crore.  
**(Paragraph 6.2.10)**
- Lack of coordination between forest and mining departments resulted in loss of transit fees amounting to ` 238.53 crore.  
**(Paragraph 6.2.12)**
- Loss of revenue due to removal/closure of barriers amounting to ` 42.84 crore.  
**(Paragraph 6.2.14)**
- Non-levy of transit fee by the divisions on the minerals used in construction of roads by National Highway Authority of India resulted in loss of revenue of ` 29.62 crore.  
**(Paragraph 6.2.16)**

### 6.2.1 Introduction

The Forest Department was established for conservation and management of forests of the State. In Uttar Pradesh the total covered area of forest land is 22,330 sq. km. This is 9.27 *per cent* of the total geographical area of 2,40,928 sq. km. of the State. The main objectives of the Department are to implement the National Forest Policy and State Forest Policy which aim at improvement of existing natural and planted forest by conservation, development and scientific management as well as to increase tree cover by social, agro forestry and afforestation schemes, to ensure environmental stability and ecological balance. The Department realises revenue by way of royalties, fees and penalties as defined in the Indian Forest Act 1927 and Uttar Pradesh Forest Manual. The major portion of revenue in the Forest Department is collected from the Uttar Pradesh Forest Corporation (UPFC) by way of royalty on exploitation of trees, bamboo and *tendu* leaves etc.

### 6.2.2 Organisational set up

At the Government level, the Principal Secretary, Forest Department is responsible for implementation of the policies and overseeing the activities of the Department. At the departmental level, the Principal Chief Conservator of Forests (PCCF) is the head and is assisted by three Additional PCCFs and Finance Controller (FC). The FC is responsible for financial management including control over grant/appropriation and is also the Chief Internal Auditor of the Department. The realisation of revenue/receipt is done by the respective Divisional Forest Officers (DFOs)/Divisional Directors.

### 6.2.3 Audit objectives

Our objectives were to assess whether:

- the working plans (WPs) of the divisions were prepared and got approved from the Government of India (GOI);
- an adequate and effective system existed for assessment and collection of revenue;
- Acts, Rules, orders and circulars issued by the Central Government, State Government and Department from time to time were followed; and
- the internal control system was adequate and effective to monitor the revenue collection and its proper management.

### 6.2.4 Audit criteria

We conducted the performance audit with reference to the following:

- Indian Forest Act, 1927, as amended from time to time.
- UP Forest Manual (Receipts).
- Government orders/circulars etc.
- Forest Manual (Receipt) and Financial Hand Book.
- UP Transit of timber and other Forest Produce Rules, 1978.

### 6.2.5 Sampling and audit methodology

After segregating the 80 Forest Divisions in the State into high, medium and low risk category based on the revenue collected in the year 2008-09, we selected 26<sup>1</sup> divisions by statistical random sampling method for test check.

We carried out the test check of the records (2004-09) of the PCCF office and 26 selected divisions during September 2009 to March 2010.

### 6.2.6 Acknowledgement

We acknowledge the co-operation of the Department in providing necessary information and records to audit. The audit objectives were discussed in an entry conference held on 18 November 2009 with the Principal Chief Conservator of Forests. The findings were discussed in the exit conference held on 8 July 2010. The Government and the Department were represented by the Secretary, Forest, Uttar Pradesh and Additional Principal Chief Conservator of Forests respectively. Their replies have been incorporated in the relevant paragraphs.

<sup>1</sup> **High Risk Area: (revenue > ` 7.50 crore)** Forest division Agra, Bahraich, Bareilly, Bijnour (Najibabad), Hamirpur, Mahoba, Obra, Pilibhit (RF), Ramnagar and Renukoot (10).

**Medium Risk Area: (revenue < ` 7.50 crore but > ` one crore)** Forest division Chitrakoot, Gonda, Kanpur Dehat, Lalitpur, Lucknow, Meerut, Mirzapur, Padarauna and Pilibhit (9).

**Low Risk Area: (revenue < ` one crore)** Forest division Dudhwa National Park (Khiri), Etah, Faizabad, Firozabad, Hardoi, Jaunpur and Siddharth Nagar (7).

## Audit findings

### System deficiencies

#### 6.2.7 Unrealistic budget estimates

As per provisions of the Budget Manual an estimate should show the amounts actually expected to be received during the budget year.

The position of Budget Estimates (BEs), actual receipts and percentage of difference between budget estimates and

actual receipts during the last five years is detailed below:

(C in crore)

Year	Budget estimates	Actual receipts	Difference between actual receipts and budget estimates	Percentage of difference
2004-05	79.31	107.42	28.11	35
2005-06	79.10	161.98	82.88	105
2006-07	127.46	212.37	84.91	67
2007-08	185.15	294.80	109.65	59
2008-09	185.15	271.92	86.77	47

It may be seen that the variation between the BEs and actuals ranged between 35 per cent and 105 per cent. This wide variation shows that the BEs were unrealistic and did not take into consideration the actual receipts of the previous year.

After we pointed this out, the Government stated during the exit conference in July 2010 that the Forest Department is not revenue-oriented and the estimates are always on the conservative side. We do not agree as BEs are not only required to be framed to meet the revenue requirement of the Government but also to serve as guidelines for the officers of the Department in achieving the prescribed targets for revenue collections.

**We suggest that the budget estimates should be framed based on realistically and as per the method prescribed in the budget manual.**

#### 6.2.8 Position of arrears

As per the information furnished to us, the total revenue pending for collection as on 31 March 2009 was ` 10.93 crore. The details were as under:

- (1) Arrears recoverable from UPFC ` 1.11 crore
- (2) Arrears recoverable from others ` 9.82 crore
- Total ` 10.93 crore**

Agewise/yearwise breakup of arrears was not available with the divisions/PCCF.

**We recommend that the Department should put in place a mechanism for properly monitoring the arrears. Further, the arrears from UPFC may be recovered as per provisions of the Uttar Pradesh Forest Manual and from others as arrears of land revenue by referring the cases to the revenue authorities for issuing recovery certificate.**

### 6.2.9 Working Plans (WP)

A Working Plan (WP) is a document prepared for a period of 10 years. It contains detailed schemes for management of silvicultural<sup>2</sup> operations. The forest produce resulting from these operations generates revenue for the Department. As per the prescribed procedure, the marking of trees in compartments is done by the divisions and handed over to the UPFC for exploitation with estimates of obtainable timber.

#### 6.2.9.1 Delay in preparation of the Working Plans (WP)

##### Five divisions<sup>3</sup>

Working plans should be prepared well in advance and approval of the Government of India taken. Absence of a WP prevents extraction of the forest produce which adversely affects both the revenue of the Department and also the forests. Any extraction of forest produce without an approved WP is illegal.

We found that the existing WPs expired in 2007-08 and no WP existed for 2008-09 onwards. The delay in preparation of the WPs indicated that the monitoring mechanism was weak.

After we pointed this out, the Government replied during the exit conference that the WPs have now been completed. The reply is however silent about the delay in preparation of WPs which resulted in deferring of timber extraction and consequent non-realisation of revenue from these divisions.

**We recommend that preparation of the working plans should be monitored and approval of the same obtained from the Government of India well before expiry of the operational working plans so that revenue of the Department is not affected. The Government may consider prescribing periodic returns/reports to be submitted by the divisions for effectively monitoring the status of preparation and implementation of Working Plans in the State.**

#### 6.2.9.2 Loss of royalty due to non-exploitation of bamboo

##### Two divisions<sup>4</sup>

Bamboo is felled/exploited in three to four years felling cycle prescribed in the relevant working plan. Each felling series becomes due for harvesting after every three/four years. If bamboo is not harvested from a felling series in a particular year, that felling series can be harvested only after three/four years resulting in loss of revenue. Non-exploitation of bamboo crop prevents fresh growth of coppice shoots/ clumps which eventually forms the future bamboo crop.

We observed that a large number of lots of bamboo allotted to UPFC during 2004-09, were not exploited by UPFC. The Department also

<sup>2</sup> Raising of new plantation and developing existing plantation and in the process collection of revenue through sale of forest produce.

<sup>3</sup> Awadh, Gonda, Hardoi, Kashi (Ramnagar) and Siddharth Nagar.

<sup>4</sup> Mahoba: ₹ 32.28 lakh; Renukoot: ₹ 8.47 lakh.

did not pursue the matter regarding exploiting these lots with UPFC. This resulted in loss of royalty of ` 40.75 lakh and also hindered further fresh growth of bamboo in those lots, affecting future revenue.

After we pointed this out, the Government agreed with our observation during the exit conference and asserted that the Forest Corporation should do the exploitation. However steps taken to ensure exploitation of bamboo as per the felling cycle were not mentioned.

### 6.2.10 Non-prescription of volume factor of trees having diameter above 45 cm

#### Twenty divisions<sup>5</sup>

As per orders issued by the Chief Conservator of Forests (Management) UP, Nainital (June 1978), the volume factor for calculating royalty of eucalyptus trees having diameter up to 45 cm only was prescribed based on a felling cycle of 8 years. Later on in April 1993, the felling cycle was increased to 10/30 years (10 year for canal side trees and 30 year for road side trees) and to 15 years (both canal and road side trees) in April 1998, but the volume factor remained the same. The volume factor is dependent on the diameter of trees, which naturally increases with age. The volume factor of trees having diameter above 45 cm. was determined only in December 2008.

We observed that 90,916 eucalyptus trees with diameters ranging between 45-50 cm and 90-95 cm were allotted to UPFC during 2004-09.

Although the felling cycle was increased from eight years to 10 years in April 1993 and to 15 years in April 1998 respectively,

the volume factor for the trees was not ascertained simultaneously by the Department. In the absence of the same, the divisional authorities levied royalty at the rates applicable for trees having diameter upto 45 cm only based on the felling cycle of eight years including trees having higher diameter. As a result, on trees having higher diameter, the rate of royalty for trees with diameter upto 45 cm was applied between 2004-2009. This resulted in loss of revenue of ` 4.94 crore.

After we pointed this out, the Government, during the exit conference agreed with the audit observation that the volume table was issued late.

**The Department should ensure that whenever the felling cycle of trees is changed, the volume factor is determined simultaneously.**

<sup>5</sup> Agra : ` 2 lakh; Bahraich : ` 13.90 lakh; Bareilly: ` 37.17 lakh; Faizabad: ` 45.24 lakh; Firozabad: ` 6 lakh; Gonda : ` 6.33 lakh; Hardoi : ` 21.19 lakh; Jaunpur : ` 2.43 lakh; Kanpur Dehat : ` 32.12 lakh; Lalitpur : ` 2.16 lakh; Lucknow: ` 16.54 lakh; Mahoba: ` 28,000; Meerut : ` 1.27 crore; Mirzapur : ` 3.43 lakh; Obra : ` 15,000; Padarauna (Kushinagar) : ` 2.08 lakh; Pilibhit (RF) : ` 8.09 lakh; Pilibhit (SF) : ` 1.67 crore; Renukoot : ` 15,000; Siddharth Nagar : ` 74,000.

### 6.2.11 Absence of mechanism for collection and allotment of tree roots and levy of royalty

#### Seven divisions<sup>6</sup>

The trees obstructing the construction of National Highways and roads are felled and royalty thereon is paid by the UPFC as per the procedure laid down in the Forest manual. In the normal felling, the trees are felled above 10 cm from the earth and roots are left because the excavation of roots is uneconomical, but in case of construction of National highways and roads, the trees are uprooted. The Department did not prescribe any mechanism for collection and allotment of tree roots coming in the way during construction of National highway and roads to UPFC and levy of royalty thereon.

We observed that 88,572 trees were uprooted between 2004 and 2009 by construction agencies during construction of National Highways (NH) and roads. Since the roots are used as fuel wood, they should have been collected and allotted to UPFC and royalty levied as was done in Sitapur and Moradabad Divisions where the

roots were allotted to UPFC. Had this procedure been adopted by all seven divisions, the Department would have fetched revenue of ₹ 58.01 lakh in the shape of royalty.

After we pointed this out, the Government replied during the exit conference in July 2010 that there is no policy to recover the royalty on fuelwood and tree roots come in the category of fuelwood. We do not agree with the reply because as per the Forest manual, UPFC is responsible for paying royalty on fuelwood allotted for disposal and further two divisions under the Department had allotted tree roots to UPFC.

**We suggest that the Government should devise a mechanism for collection and allotment of tree roots to UPFC coming in the way during construction of NH/roads and realise royalty for the same.**

### 6.2.12 Lack of co-ordination between Forest and Mining Departments

#### Eight divisions<sup>7</sup>

The State Government issued directions in February 2008 regarding issue of 'No Objection Certificate' (NOC) by the Forest Divisions to District Magistrate (Mining Department) for mining in non-forest land by private contractors. The minerals excavated attracts transit fee under the UP Transit of timber and other Forest Produce Rules 1978 (UPTTOFP Rules).

We observed that 449 NOCs were issued to District Magistrates for mining of minerals (forest produce) from non-forest land. Though minerals so excavated attracted transit fee, the Department had no system in place to

<sup>6</sup> Firozabad: 21,519; Hardoi: 2,277; Kanpur Dehat: 9,462; Lalitpur: 12,673; Meerut: 10,486; Padarauna: 14,526; Ram Nagar: 17,629; Total: 88,572 roots.

<sup>7</sup> Hamirpur:207; Hardoi: 5; Kanpur Dehat:8; Lalitpur:32; Mahoba:72; Obra:93; Padarauna:5; Renukoot:27.

collect information from the Mining Department regarding the quantities of mineral excavated by contractors/leaseholders so that transit fee could be levied on the same. This lack of a system to coordinate and estimate the quantity of minerals extracted in the districts resulted in a loss of revenue to the Department. We worked out the transit fees leviable in four Divisions<sup>8</sup> for the period 2004-09 as ₹ 238.53 crore, on the basis of figures intimated by the Mining Department in July 2009 and September 2010.

After we pointed this out, the Government agreed with our observation during the exit conference but the point of loss of revenue was not accepted. We do not agree with the reply as the mineral excavated attracts transit fee under the UPTTOFP Rules.

**We recommend that the Government should devise a mechanism for co-ordination of Mining and other Departments with the Forest Department to plug the leakage of revenue.**

### 6.2.13 Non-revision of rates

We noticed that a committee comprising officers of the Forest Department and UPFC in a meeting held in November 1992 recommended that the rates of lease rent payable on the forest land should be raised from ₹ 500 to ₹ 1,000 per hectare annually. The committee also recommended that the rate should be revised after five years by mutual agreement between the Forest Department and UPFC. But the rate effective from 30 November 1992 has not been revised so far. Similarly, rates of fees, rents and royalties have not been revised for the past several years. For example, grazing charges have remained unchanged since 1981, transit fee since 2004, saw mills license fee since 2004, road fee since 1995 and royalty on *tendu patta* since 2002. Although the market prices have gone up, the above rates have not been revised in keeping with the market rates. There was no system to review and revise these rates periodically.

After we pointed this out, the Government agreed with our view during the exit conference and replied that the rates are being revised wherever possible.

**The Government should prescribe a system for periodical revision of the rates of fees, rents and royalties at fixed intervals.**

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<sup>8</sup> Hamirpur : ₹ 102.62 crore (2004-09), Lalitpur : ₹ 49.73 crore (2004-09), Mahoba : ₹ 85.46 crore (2004-09), Obra : ₹ 72.12 lakh (2008-09).

### 6.2.14 Loss of revenue due to removal/closure of barriers

#### Seventeen divisions<sup>9</sup>

Under the UP transit of timber and other Forest Produce Rules 1978, transit fee is leviable on each forest produce at the barriers established under the rules ibid. The Government decided in July 2008 to remove with immediate effect the forest barriers installed to collect the transit fees, penalties etc. on transportation of forest produce. Alternative arrangements such as strengthening of enforcement activities were to be made to realise the revenue.

We observed that these divisions collected revenue of ` 84.44 crore in 2007-08 and ` 41.60 crore between April 2008 and June 2008 before removal of forest barriers. If the trend of revenue collection of the previous year i.e. 2007-08 is taken into account, there was shortfall of revenue of ` 42.84 crore after removal of barriers

in these divisions between July 2008 to March 2009. Though the Department was required to make alternate arrangements like strengthening of enforcement activities etc. to ensure that there is no shortfall/leakage of revenue yet it had failed to maintain the collection levels achieved with the aid of barriers in previous years. The Government had also admitted during the exit conference that removal of barriers resulted in a recurring loss of revenue.

**We recommend that effective alternative arrangements should be made to ensure that there is no leakage of revenue being collected previously at barriers.**

### 6.2.15 Working of internal audit wing

Internal audit wing (IAW) is a vital component of the internal control mechanism and is generally defined as the control of all controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. The performance of the IAW during the years 2004-05 to 2008-09 is shown below:

Period	Opening balance of paras	Addition during the year	Clearance during the year	Closing balance of paras
2004-05	4,692	460	-	5,152
2005-06	5,152	609	-	5,761
2006-07	5,761	375	-	6,136
2007-08	6,136	145	-	6,281
2008-09	6,281	872	-	7,153

The above table shows that no objections were settled during the period 2004-09 as a result of which 7,153 paragraphs were outstanding for want of remedial measures. This indicated that the purpose of having this vital internal control measure to ensure that the revenue collection was optimum was not served.

<sup>9</sup> Bahraich : ` 2.03 lakh; Dudhwa : ` 74,000; Faizabad : ` 4.36 lakh; Firozabad : ` 28.42 lakh; Gonda : ` 3.43 lakh; Hamirpur : ` 9.35 crore; Hardoi : ` 52,000; Kanpur Dehat : ` 25.29 lakh; Lalitpur : ` 44.93 lakh; Lucknow : ` 5.88 lakh; Mahoba : ` 9.38 crore; Mirzapur : ` 2.66 crore; Najibabad : ` 1.82 crore; Obra : ` 16.65 crore; Pilibhit (RF) : ` 54.15 lakh; Renukoot : ` 1.28 crore; Siddharth Nagar : ` 89,000.

After we pointed this out, the Department stated during the exit conference that due to shortage of staff and lack of computers, the functioning of IAW is not being carried out properly.

**The Government may consider strengthening the IAW and ensuring time bound action by the forest officials on the objections raised by the IAW so as to safeguard interest of revenue and to avoid recurrence of the mistakes pointed out.**

## Compliance deficiencies

### 6.2.16 Non-levy of transit fees

#### Lalitpur Division

Under the UP Transit of timber and other Forest Produce Rules 1978, as amended in June 2004, transit fee is leviable on forest produce at the rate of ₹ 38 Per Metric Ton (MT). The Indian Forest Act stipulates that forest produce includes peat, surface soil, rock and minerals (including limestone, laterite, mineral oils and all products of mines or quarries). As per UP Minor Minerals (Concession) Rules, 1963, ordinary earth is also a mineral.

We observed that the contractors of the National Highway Authority of India transported different kinds of forest produce such as earth, sand, moorum, grit, aggregate and stone pitching during the construction of National Highway

No-26 without paying transit fee to the Department. The Department also did not raise the demand for transit fee against the contractor. This resulted in non-levy/realisation of transit fee of ₹ 29.62 crore as detailed below:

Material	Quantity in volume (Cubic Meter)	Quantity in weight (MT) <sup>10</sup>	Transit fee due (in ₹)
Earth	24,32,322	41,38,165.97	15,72,50,307
Sand	-	46,436.00	17,64,568
Moorum	8,24,305	16,48,610.00	6,26,47,180
Aggregate	8,73,879	18,16,376.67	6,90,22,314
Other material stone pitching	86,000	1,46,313.80	55,59,924
<b>Total</b>		<b>77,95,902.44</b>	<b>29,62,44,293</b>

We observed that similar construction works have been carried out in six other test checked divisions<sup>11</sup> but as details of minerals/forest produce used were not available, the exact amount of loss in these six divisions could not be quantified. However, there was loss of transit fee in all such divisions where NH/Road construction/other construction had taken place.

After we pointed this out, the Government replied during the exit conference that these materials were not brought from forest areas and were not forest produce as per definition of forest produce under the Indian Forest Act. We do

<sup>10</sup> Mineral conversion rate from Cubic Meter to Metric Ton:-  
 Earth & stone pitching :9 metric ton per 5.29 m3  
 Moorum: 9 metric ton per 4.50 m3  
 Aggregate: 9 metric ton per 4.33 m3

<sup>11</sup> Firozabad; Hardoi; Kanpur Dehat; Meerut; Padarauna; Ramnagar.

not agree with the reply as Government had ordered (February 2008) to collect transit fees on minerals excavated from non-forest land.

### 6.2.17 Non-disposal of seized and unclaimed timber

#### Thirteen divisions<sup>12</sup>

Under the Indian Forest Act, 1927, unclaimed forest timber shall vest with the Government. According to an order issued (March 1996) by the PCCF, seized and unclaimed forest produce is required to be allotted or transferred to UPFC immediately and may be auctioned within 90 days from the date of allotment.

We observed that timber worth ₹ 86.89 lakh was lying undisposed from 1989-90 to 2008-09. As timber is perishable, its timely disposal is essential to ensure maximum revenue. The inaction of the

Department resulted in blocking of revenue of ₹ 86.89 lakh.

After we pointed this out, the Government agreed to the audit findings. However the reply is silent above the steps taken to ensure auction of seized and unclaimed timber within the prescribed time limit.

### 6.2.18 Non-realisation of Net Present Value of forest land

#### Three divisions<sup>13</sup>

As per the guidelines issued in 2003 by the Ministry of Environment and Forest, Government of India for diversion of forest land for non-forest purpose under the Forest (Conservation) Act 1980, the Net Present Value (NPV) of forest land shall be charged at the rate of ₹ 5.80 lakh per hectare and ₹ 9.20 lakh per hectare depending upon the quantity and density of land.

We observed that forest land was transferred (2003-05) to Government departments (Public Works, Irrigation) and a private company (Airtel). The NPV of land of ₹ 3.90 crore should have been recovered before the

transfer of land. We noticed that out of this, demand for ₹ 2.95 crore only was raised between March 2006 and December 2009 against the user departments/agencies leaving a balance of ₹ 94.60 lakh. The reasons for short raising of demand were neither on record nor were efforts made to realise the NPV even for the amount for which demand was raised. This resulted in non-realisation of NPV of ₹ 3.90 crore.

<sup>12</sup> Agra : ₹ 1.57 lakh; Bareilly: ₹ 2.19 lakh; Dudhwa : ₹ 23.97 lakh (1993-94); Gonda : ₹ 3.32 lakh (2005); Hardoi : ₹ 13.90 lakh (2004); Jaunpur : ₹ 99,000 (1989-90); Kanpur Dehat : ₹ 39,000 (2007-08); Lucknow: ₹ 5.05 lakh (2001-02); Meerut : ₹ 11.24 lakh (1997-98); Mirzapur : ₹ 1.51 lakh (2001); Padarauna (Kushinagar) : ₹ 2 lakh (1997-98); Pilibhit (SF) : ₹ 6.11 lakh; Ramnagar : ₹ 14.66 lakh (1999-2000).

<sup>13</sup> Bahraich: ₹ 94.60 lakh; Jaunpur: ₹ 2.06 crore; Mirzapur: ₹ 89.06 lakh.

After we pointed this out, the Government agreed with our observation during the exit conference and assured that action will be taken as per the Government of India guidelines. Further report has not been received (October 2010).

### 6.2.19 Non-reconciliation of remittances with treasury

#### Four divisions<sup>14</sup>

Para 185 of the Financial Hand book Volume VII provides that on the first of each month each treasury which has received forest remittance during the previous month should send to the Divisional Officer concerned a Consolidated Treasury Receipt (CTR) showing details of each remittance separately. The remittances should be reconciled with Form No. 26 and discrepancy, if any, adjusted within the current month by the Division concerned.

We observed that contrary to the provision of the Financial Rules, the reconciliation of forest receipts of ₹ 34.45 crore was not done with the treasury records.

After we pointed this out, the Government agreed with our findings during the exit conference.

### 6.2.20 Revenue receipts booked in deposit

#### Ten divisions<sup>15</sup>

Paragraph 21 of the UP Financial Hand Book volume-V Part I and paragraph 97(iii) of Budget Manual state that the departmental authorities are required to see whether all revenue receipts due to Government are correctly and properly assessed and credited into Government account without undue delay. Government vide GO (June 1999) had also instructed that all non-tax revenues should be deposited in Forest revenue head "0406-Forest".

We observed that an amount of ₹ 1.46 crore received on account of sale of plants, transit fee, lease rent etc. during the years 1997-98 to 2008-09 was deposited in forest deposit account head "8782-103-Forest Remittances" rather

than being credited under the revenue head "0406 Forest Revenue". These divisions did not follow the provisions of the Financial Rules.

After we pointed this out, the Government agreed with our comment during the exit conference.

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<sup>14</sup> Dudhwa : ₹ 1.11 crore (4/06 to 3/09); Hardoi : ₹ 1.88 crore (4/05 to 3/09); Ramnagar : ₹ 31.12 crore (4/08 to 3/09); Siddharth Nagar : ₹ 33.89 lakh (4/07 to 3/09).

<sup>15</sup> Agra : ₹ 5.23 lakh; Dudhwa : ₹ 14.71 lakh; Gonda : ₹ 1.04 lakh; Hamirpur : ₹ 73.67 lakh; Hardoi : ₹ 5.78 lakh; Lalitpur : ₹ 11.46 lakh; Padarauna (Kushinagar) : ₹ 1.34 lakh; Pilibhit (SF) : ₹ 1.02 lakh; Renukoot : ₹ 30.88 lakh; Siddharth Nagar : ₹ 60,000.

### **6.2.21 Conclusion**

Our review indicated that Working Plans were not prepared for a number of divisions from 2008-09 onwards. As WPs are required for efficient management of silvicultural operations, their absence would have a major impact on the growth and regeneration of the forests. Failure to ensure exploitation of bamboo by UPFC led to loss of revenue. Lack of co-ordination of the Forest Department with other departments/agencies, like Mining Department also led to loss of revenue and efforts had not been made for periodical revision of rates of fees, rents and royalties. Volume factor was not decided simultaneously with change in felling cycle. Removal of barriers without an alternative mechanism to realise the revenue earned at barriers caused a significant loss of revenue to the State.

### **6.2.22 Recommendations**

The Government may consider implementation of the following recommendations.

- the budget estimates should be prepared on a scientific and realistic method prescribed in the budget manual;
- arrears from UPFC may be recovered as per provisions of the Uttar Pradesh Forest Manual and from others as arrears of land revenue by referring the cases to the revenue authorities for issuing recovery certificates;
- preparation of the working plans should be monitored and approval of the same obtained from the Government of India well before expiry of the operational working plans so that the revenue of the Department is not affected. The Government may consider prescribing periodic returns/reports to be submitted by the divisions for effectively monitoring the status of preparation and implementation of WP in the State;
- whenever the felling cycle of trees is changed, the volume factor should be determined simultaneously;
- a mechanism should be devised for collection and allotment of tree roots to UPFC coming in the way during construction of NH/roads and of royalty realisation for the same;
- co-ordination with other departments and agencies should be ensured to avoid loss of revenue;
- a system for periodical review should be prescribed and the rates of fees, rents and royalties revised at fixed intervals;

- time bound action by the forest officials on the objections raised by the IAW should be ensured so as to safeguard interest of revenue and to avoid recurrence of mistakes pointed out; and
- effective alternative arrangements should be made to ensure that there is no leakage of revenue being collected previously at forest barriers.

### 6.3 Other audit observations

*Our scrutiny of records in the offices of the Irrigation and Medical and Public Health Departments revealed cases of non-realisation of centage charges and royalty, short levy of operation fees as mentioned in succeeding paragraphs in this chapter. These cases are illustrative and are based on a test check carried out by us. Such omissions are pointed out by us each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.*

### 6.4 Non-levy of centage charges on deposit work

#### **Sharda Canal Division, Barabanki**

Under the provisions of the Financial Hand Book Volume-V (Part-I) read with Government order dated 19 August 1998, centage charges at the rate of 12.5 *per cent* in respect of Irrigation Department on the actual outlay on works are to be levied and credited to the Government account in respect of deposit works undertaken by the Irrigation department on behalf of commercial departments and local bodies in the State.

We observed that the department did not levy centage charges amounting to ` 92.54 lakh on the outlay of ` 7.40 crore out of the total deposit work for ` 15.20 crore, undertaken by the division on behalf of UP Jal Nigam,

Lucknow between February 2009 and February 2010.

After we pointed this out, the Executive Engineer of the division stated in March 2010, that the terms and conditions of the project did not contain provision for centage charges. After revision of the terms and conditions of the project and approval of the higher authorities, the centage charges would be recovered.

We reported the matter to the Department and the Government in March 2010. Their reply has not been received (October 2010).

## 6.5 Non-realisation of royalty on collection of stone ballast

### Sharda Sagar Division of Irrigation Department in Pilibhit

The Government vide letter dated 22 September 1988 read with instructions issued on 2 February 2001, directed the drawing and disbursing officers to ensure, before making payment to contractors/suppliers on account of supplies of stone ballast, moorum, earth and sand, that they had made payment of royalty of the supplies to the Mines and Mineral Department and produced receipt in form MM-11 issued by the Mines and Mineral Department. In case of default, royalty is to be deducted from the bills of contractors/suppliers.

We observed that 19 contractors supplied 32,486.03 cum. stone ballast to the Sharda Sagar Division between April 2007 and June 2008 for construction work. During our examination of the records of the division we found that prior to making payment to the contractors in respect

of completed works, the division did not obtain the receipt in form MM-11 issued by the Mines and Mineral Department and also did not deduct royalty at the prescribed rate<sup>16</sup> from the bills of the contractors. This resulted in loss of royalty of ` 10.40 lakh.

We reported the matter to the Department and the Government in March 2010. Their reply has not been received (October 2010).

## 6.6 Short levy of operation fees

### Six<sup>17</sup> Chief Medical Superintendents

With a view to provide better and qualitative medical facilities to patients, user charges in Government hospitals/dispensaries (except hospitals affiliated to Government medical colleges) was leviable from 1 July 2000 vide Government order dated 28 June 2000. The user charges so levied were to be enhanced by 10 per cent at the beginning of each calendar year. The Government vide order dated 31 December 2003 stopped increase in user charges only for the calendar year 2004.

We observed between September 2009 and January 2010 that the hospitals levied user charges of ` 1.38 crore relating to operation fees between the calendar years 2005 to 2009. The charges at the revised rate however

worked out to ` 2.24 crore. The levy of user charges at the pre-enhanced rates instead of the revised rate resulted in short levy of user charges of ` 86.69 lakh.

After we pointed this out, the CMS Hardoi stated that the increase in user charges was stopped vide order dated 31.12.2003. We do not agree with the

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<sup>16</sup> ` 32 per cum.

<sup>17</sup> Ballia, Firozabad, Gonda, Hardoi, Kheri and Raebareli.

reply as the said order was effective only for the calendar year 2004. The other CMS did not furnish any reply.

We reported the matter to the Department and the Government between October 2009 and February 2010. Their reply has not been received (October 2010).

**Lucknow,  
The**

**(Dr. Smita S. Chaudhri)  
Accountant General (C&RA)  
Uttar Pradesh**

**Countersigned**

**New Delhi,  
The**

**(VINOD RAI)  
Comptroller and Auditor General of India**

**APPENDIX-I***(Reference Para No. 2.9.7.2)***Reorganisation of the department and analysis of the staff position****Category-wise organisational set-up and staff position of pre-VAT and post-VAT period****OFFICES**

Category of the offices	pre-VAT	post-VAT
Zonal Offices	14	20
Regional Offices	39	45
Joint Commissioner (Corporate Cell)	Nil	20
Joint Commissioner (Tax Audit/ Registration / Forms)	Nil	20
Special Investigation Branch Offices	39	45
Offices of the Assessment	241	441
Dy. Commissioner (Recovery)	20	20
Dy. Commissioner (Administration)	20	20
Dy. Commissioner/ Assistant Commissioner (State Representative)	51	51
Mobile Squad Offices	54	150
Check Posts	83	Nil
<b>Total</b>	<b>561</b>	<b>832</b>

**OFFICERS**

Category of officers	pre-VAT	post-VAT	
	Sanctioned strength	Sanctioned strength	Person-in position
Commissioner	01	01	01
Additional Commissioner Grade-I	14	23	21
Additional Commissioner Grade-II	02	77	73
Joint Commissioner	125	157	155
Dy. Commissioner	317	494	420
Assistant Commissioner	792	964	582
Commercial Tax Officer	1056	1275	514
Joint Director (Sankhya)	00	01	Nil
Dy. Director (Sankhya)	01	04	01
Sankhya Adhikari	03	24	Nil
<b>Total</b>	<b>2311</b>	<b>3020</b>	<b>1767</b>

**Source:** Information supplied by the commercial tax department.

**Sanctioned Strength and Persons-in-position of staff for the period 2006-07 to 2009-10**

Sl. No	Name of the cadre	2006-07		2007-08		2008-09		2009-10	
		Sanctioned Post	Person in Position						
1.	Clerk	5160	4667	5160	4672	5160	4727	5160	4604
2.	Stenographer	861	803	861	805	861	803	861	805
3.	Statisticians	185	127	185	167	185	164	185	152
4.	Auditors	91	43	91	38	91	39	91	34
5.	Accountants	131	33	121	33	121	33	121	33
6.	Driver	459	349	459	336	459	362	459	362
7.	Class IV	3529	2945	3529	2940	3529	2940	3529	2959

**Source:** Information supplied by the Commercial Tax Department.

**APPENDIX-II**  
**(Reference Para 2.9.12.1)**

Sl.No.	Citation of the case
	<b>Section 15-A(1)(c)- Penalty for concealment of turnover</b>
1.	M/s Jeewan Ram, Ram Lakhan V/s CTT STI 2004 All H.C. 771
2.	M/s Roshan Trading Company V/s CST STI 2004 All H.C. 498
3.	M/s Northern India Chemical Works V/s CST STI 2004 All H.C. 52
4.	CTT V/s Dharmal Varshney Oil Expellar STI 2004 All H.C. 29
5.	CST V/s Jamuna Brick field STI 2004 All H.C. 17
6.	M/s Durga Mateshwari Mills V/s CST STI 2004 All H.C. 8
7.	M/s Moti Lal Jawahar Lal V/s CST STI 2003 All H.C. 769, 2003 NTN (Vol. 23) 590 All H.C.
8.	M/s Moti Lal Dwarka Prasad V/s CST STI 2003 All H.C. 756
9.	CST V/s Maheshwari Mill Store, STI 2003 All H.C. 663
10.	CST V/s Agarwal Kirana Corporation STI 2003 All H.C. 609
11.	CST V/s Mast Ram Biri Merchant STI 2003 All H.C. 127, 2003 NTN (Vol. 22) 201 All H.C.
	<b>Section 15-A(1)(o)- Penalty for import or transport of goods in contravention of provision of section 28-A.</b>
12.	CTT V/s Rawal Button Stores 2007 NTN (Vol.33) 149 All. H.C. (2007) 5 VLJ 150 All H.C.
13.	M/s Link Marketing Services (Alld) V/s CTT STI 2006 All H.C. 403, 2006 UPTC 1194, 2006 NTN (Vol. 31) 13 All H.C. (2006) 44 STR 699 H.C.
14.	CTT V/s R.K. Enterprises 2006 NTN (Vol 30) 1 All H.C. (2006) 4 VLJ 100 All H.C.
15.	JayPee Rewa Cement V/s CTT STI 2006 All H.C. 171 (2006) 43 STR 261 H.C. (2006) 4 VLJ 117 All H.C.
16.	Feddars Layad Corporation Ltd. V/s CTT STI 2006 All H.C. 156
17.	Uma Sand Coating Pvt. Ltd. V/s CTT STI 2006 All H.C. 133
18.	M/s Baranwal Carpet Manufacturing Co. V/s CTT STI 2006 All. H.C. 73
19.	Jindal Strips Ltd. V/s CST STI 2005 All H.C. 676, (2005) STD HC 77 2005 NTN (Vol.27) 176 All. HC
20.	CTT V/s Instrumentation Ltd., STI 2005 All H.C. 256 2005 NTN (Vol. 26) 371 All H.C.
21.	Flosyn Fragrances V/s CTT STI 2005 All HC 227 2005 NTN (Vol.26) 405 RS
22.	CST V/s Parasrampuriah Synthetics Ltd. STI 2005 All HC 214
23.	Chuknoo Marketing Pvt. Ltd. V/s CTT STI 2005 All HC 107 (2005) 41 STR 247 HC
24.	Taj Plastic House V/s CST, STI 2004 All HC 806, 2004 UPTC 729 2004 NTN (Vol. 25) 1105 All. HC. (2004) 40 STR 733 HC
25.	Everest Building Product Ltd. V/s CTT STI 2004 All HC 780 2004 UPTC 1265
26.	Radha Ballabh Satish Chandra V/s CST STI 2004 All HC 649 2004 UPTC 852 2004 NTN (Vol 25) 760 All HC (2004) 40 STR 727 HC
27.	Lipton India Ltd. V/s CST STI 2004 All HC 644 2004 NTN (Vol.25) 1032 All HC (2004) 40 STR 1201 HC.
28.	CST V/s Shravan Kumar & Brothers STI 2004. All HC 610
29.	Vardan Textiles V/s CST STI 2004 All HC 154 (2004) 39 STR 103 HC
30.	Vimco Ltd. V/s CST STI 2001 All HC 133

**APPENDIX-III**  
**(Reference Para 2.9.18)**

**CASES FINALISED DURING 2008-09**

Sl.No.	Name of the Office	No. of Cases finalised during the year	No. of Cases finalised in the month of March	Percentage of finalised cases in the month of March with reference to total no. of cases
1.	DC-5, Noida	703	448	64
2.	DC-6, Noida	220	135	61
3.	DC-8, Noida	234	117	50
4.	DC-13 Meerut	125	62	50
5.	DC-4, Noida	632	420	66
6.	DC-13, Noida	985	458	46
7.	DC-20, Lucknow	294	200	68
8.	DC-4, Moradabad	261	185	70
9.	DC-10, Moradabad	395	313	79
10.	DC-8, Jhansi	344	124	36

**CASES FINALISED DURING 2009-10**

Sl.No.	Name of the Office	No. of Cases finalised during the year	No. of Cases finalised in the month of March	Percentage of finalised cases in the month of March with reference to total no. of cases
1.	DC-15, Lucknow	88	29	32.95
2.	DC-16, Lucknow	212	85	40.09
3.	DC-4, Ghaziabad	239	185	77.41
4.	DC-9, Ghaziabad	400	96	24
5.	DC-10, Noida	510	235	46.08
6.	DC-14, Noida	536	336	62.69
7.	DC-7, Meerut	447	140	31.32
8.	DC-Sardhana, Meerut	319	156	48.90
9.	DC -3, Muzaffarnagar	49	02	4.08
10.	DC-8, Muzaffarnagar	318	120	37.74
11.	DC-3, Bareilly	182	88	48.35
12.	DC-10, Agra	32	03	9.38
13.	DC-11, Agra	422	60	14.22
14.	DC-7, Aligarh	117	29	24.78
15.	DC-8, Aligarh	216	94	43.52
16.	DC-12, Kanpur	736	136	18.48
17.	DC-17, Kanpur	250	108	43.20
18.	DC-21, Kanpur	167	72	43.11
19.	DC-5, Varanasi	121	25	20.66
20.	DC-6, Varanasi	26	17	65.38
21.	DC-3, Allahabad	70	12	17.14
22.	DC-9, Allahabad	54	10	18.52
23.	DC-3, Moradabad	151	25	16.56
24.	DC-7, Moradabad	142	53	37.32

**APPENDIX-IV****Short levy of tax due to application of incorrect rate of tax  
(Reference Para No. 2.11.1.2)**

Sl.No.	Name of the unit	No. of dealers	Assessment year (month & year of assessment)	Name of Commodity	Taxable Turnover (₹ in lakh)	Rate of tax leviable/levied (per cent)	Tax short levied (₹ in lakh)
1.	DC-15, CT Kanpur	1	2005-06 (October 2007)	PVC Sole	19.22	10/4	1.15
			2006-07 (October 2008)	--do--	6.03	10/4	0.36
			2007-08 (December 2008)	PVC Sole, PU Leather Cloth	12.53	10/04	0.75
2.	DC-15 CT Kanpur	1	2005-06 (November 2008)	Hosiery	133.00	5/4	1.33
3.	DC-17 CT Kanpur	1	2004-05 (November 2006)	Multilayer Polyfilm	112.17	4/2.5	1.68
			2005-06 (November 2008)	--do--	153.92	4/2.5	2.30
			2006-07 (March 2009)	--do--	78.58	4/2.5	1.18
4.	DC-1 CT Shamli	1	2003-04 (January 2006)	Empty Bottle	26.93	5/4	0.27
			2004-05 (March 2007)	--do--	121.14	5/4	1.21
			2005-06 (February 2009)	--do--	140.05	5/4	1.40
5.	DC-1 CT Shamli	1	2004-05 (March 2007)	Sulphur	13.61	4/2.5	0.20
			2005-06 (February 2009)	--do--	25.22	4/2.5	0.38
			2006-07 (March 2009)	--do--	55.05	4/2.5	0.83
6.	DC-13 CT Varanasi	1	2005-06 (October 2007)	Transmission line tools	43.90	12/8	1.76
			2006-07 (October 2008)	--do--	2.08	12/8	0.08
<b>Total</b>		<b>6</b>			<b>943.57</b>		<b>14.88</b>

**APPENDIX-V**

**Short levy of tax due to misclassification of goods.  
(Reference Para No. 2.11.1.2)**

Sl No.	Name of Unit	No. of Dealers	Assessment year (month & year of assessment)	Name of Irregularity	Turnover ( .in lakh)	Rate of tax leviable (%)	Rate of tax levied (%)	Tax Short Levied ( in lakh)
1.	DC(A)-11, CT Allahabad	1	2005-06 (March 2009)	Litho printing plates treated as aluminium sheets	21.71	10	4	1.30
			2006-07 (March 2009)	-do-	42.13	10	4	2.53
2.	DC(A)-9 CT Allahabad	1	2005-06 (February 2009)	Preserved food treated as sweetmeat and namkeen as per sale to consumer rather than preserve food taxed at M or I point.	223.29	12	5	15.63
			2006-07 (February 2009)	-do-	271.21	12	5	18.98
3.	DC(A)-5, CT, Ghaziabad	1	2004-05 (March 2007)	DVD player treated as other electronic goods	22.00	12	8	0.88
			2005-06 (January 2009)	--do--	19.18	12	8	0.77
			2006-07 (March 2009)	--do--	4.22	12	8	0.17
4.	DC (A)-13 CT Ghaziabad	1	2005-06 (March 2009)	UPS treated as power supply device	56.44	8	4	2.26
			2006-07 (March 2009)	--do--	14.97	8	4	0.60
5.	DC(A)-10,CT, Kanpur	1	2005-06 (September 2008)	Toner powder treated as computer parts	15.89	10	4	0.95
			2006-07 (March 2009)	-do-	26.19	10	4	1.57

Sl No.	Name of Unit	No. of Dealers	Assessment year (month & year of assessment)	Name of Irregularity	Turnover (in lakh)	Rate of tax leviable (%)	Rate of tax levied (%)	Tax Short Levied (in lakh)
6.	DC(A)-11, CT, Kanpur	1	2005-06 (October 2007)	Gas lighter treated as electronic goods	33.13	10	8	0.66
			2006-07 (February 2009)	--do--	22.45	10	8	0.45
7.	DC (A)-29 CT Kanpur	1	2005-06 (March 2009)	Process chemical was treated as catalyst	211.94	4	2.5	3.18
			2006-07 (March 2009)	--do--	27.45	4	2.5	0.41
8.	DC (A)-19 CT Lucknow	1	2005-06 (March 2009)	Aluminium Foil was treated as Aluminium Sheet	24.25	10	4	1.46
			2006-07 (March 2009)	--do--	26.32	10	4	1.58
9.	DC (A)-14 CT Lucknow	1	2006-07 (December 2008)	Car security system (component parts & accessories) treated as unclassified item	83.04	12	10	1.66
10.	DC (A)-11 CT Meerut	1	2005-06 (March 2009)	Printed computer stationery and forms were treated as paper	59.60	10	5	2.98
			2006-07 (March 2009)	--do--	77.42	10	5	3.87
11.	DC(A)-1, CT, Muzaffar Nagar	1	2006-07 (March 2009)	Waste Paper treated as Paper	40.46	8	5	1.21
12.	DC (A)-3 CT Muzaffarnagar	1	2003-04 (February 2005)	Industrial Solvent was treated as chemical	17.20	12	4	1.38
			2004-05 (May 2006)	--do--	2.77	12	4	0.22
			2005-06 (January 2009)	--do--	14.24	12	4	1.14
			2006-07 (March 2009)	--do--	25.88	12	4	2.07

Sl No.	Name of Unit	No. of Dealers	Assessment year (month & year of assessment)	Name of Irregularity	Turnover ( .in lakh)	Rate of tax leviable (%)	Rate of tax levied (%)	Tax Short Levied ( in lakh)
13.	DC(A)-6 CT, Saharanpur	1	2005-06 (October 2007)	Cooling gas treated as chemical	14.05	8	4	0.56
			2006-07 (October 2008)	--do--	24.04	8	4	0.96
14.	DC(A)-4 CT, Varanasi	1	2006-07 (February 2007)	Preserved food treated as sweetmeat and namkeen as per sale to consumer rather than preserve food taxed at M or I point.	65.29	12	5	4.57
<b>Total</b>		<b>14</b>			<b>1,486.76</b>			<b>73.99</b>

**APPENDIX-VI****Non-levy of State Development tax  
(Reference Para No. 2.11.1.3)**

Sl. No.	Name of the unit	No. of dealers	Year of assessment (month & year of assessment)	Taxable turnover (₹ in lakh)	Development tax leviable (₹ in lakh)
1.	DC (A), CT, Debai, Bulandshahar	1	2005-06 (October 2007)	67.59	0.68
			2006-07 (September 2008)	91.16	0.91
2.	DC (A)3 C.T Etawah	1	2005-06 (March 2009)	690.77	6.91
			2006-07 (March 2009)	1292.91	12.93
3.	DC (A)-3, CT, Gorakhpur	1	2005-06 (December 2008)	977.87	9.78
4.	AC(A)-4 CT, Ghaziabad	1	2006-07 (March 2009)	161.05	1.61
5.	DC (A)-2, CT, Meerut	1	2006-07 (October 2008)	109.12	1.09
6.	DC (A)-5, CT, Meerut	1	2005-06 (October 2008)	167.66	1.68
7.	DC (A)-4, CT, Noida	1	2005-06 (March 2008)	612.86	6.13
8.	DC (A)-9, CT, Varanasi	1	2005-06 (August 2008)	178.00	1.78
			2006-07 (March 2009)	103.00	1.03
<b>Total</b>		<b>8</b>		<b>4,451.99</b>	<b>44.53</b>

**APPENDIX-VII**

**Penalty not imposed U/s 15 A (1) (a)**  
*(Reference Para No. 2.11.2.2)*

Sl. No.	Name of Office	No. of dealers	Year of Assessment (month & year of assessment)	Amount of admitted tax (₹ in lakh)	Period of delay (in days)	Minimum amount of penalty leviable (₹ in lakh)
1.	DC(A) CT, Deoria	1	2005-06 (February 2008)	30.33	1 to 9	3.03
2.	DC (A)-1, CT, Farrukhabad	1	2006-07 (March 2009)	15.23	16 to 116	1.52
3.	DC(A)-4 CT, Ghaziabad	1	2005-06 (February 2009)	15.14	124 to 125	1.51
4.	DC(A)-2 CT, Gonda	1	2005-06 (March 2009)	112.19	121 to 122	11.22
5.	DC (A)-2 CT, Gonda	1	2006-07 (March 2009)	201.47	26 to 52	20.15
6.	DC (A)-4 CT, Sonbhadra	1	2005-06 (March 2009)	11.57	10	1.16
<b>Total</b>		<b>6</b>		<b>385.93</b>		<b>38.59</b>

**APPENDIX-VIII****Penalty not imposed U/s 8 D (6)**  
**(Reference Para No. 2.11.2.3)**

Sl. No.	Name of the office	No. of dealers	Assessment Year (month & year of assessment)	Amount of tax (₹ in lakh)	Period of delay (in days)	Maximum penalty leviable (₹ in lakh)	Penalty levied at the instance of audit (₹ in lakh)
1.	A.C Sec-9 CT, Agra	1	2006-07 (December 2008)	1.97	31	3.94	
2.	CTO Basti	1	2003-04 (March 2006)	0.66	24	1.32	1.32
3.	DC (A)-3 CT, Etah	1	2006-07 (March 2009)	0.58	4 to 44	1.16	0.58
4.	DC(A)-2 CT, Gautam Budh Nagar	1	2006-07 (March 2009)	8.75	8 to 38	17.50	
5.	AC Sec-27 CT, Kanpur	1	2005-06 (July 2008)	1.20	25	2.40	
6.	CTO-9 Lucknow	1	2006-07 (March 2009)	0.82	22	1.64	1.64
7.	DC (A)-16 CT, Lucknow	1	2005-06 (February 2009)	7.74	5 to 80	15.48	
8.	AC-3 CT, Lucknow	1	2002-03 (March 2005)	0.29	112	0.58	10.87
			2003-04 (February 2006)	0.62	48 to 51	1.24	
			2004-05 (March 2007)	4.88	65 to 230	9.76	
9.	DC (A)-9 CT, Moradabad	1	1997-98 (August 2008)	0.75	18	1.50	
10.	DC (A)-2 CT, Raibareilly	1	2006-07 (March 2009)	0.60	17 to 244	1.20	
11.	AC-12 CT, Saharanpur	1	2005-06 (February 2009)	0.60	8	1.20	
12.	DC (A)-17 CT, Varanasi	1	2006-07 (March 2009)	0.92	30	1.84	
<b>Total</b>		<b>12</b>		<b>30.38</b>		<b>60.76</b>	14.41

**APPENDIX-IX**

**Penalty not imposed U/s 10 A  
(Reference Para No. 2.11.2.4)**

Sl. No	Name of the Office	No. of dealers	Year of Assessment (month & year of assessment)	Name of the commodity not covered by the Registration certificate	Amount of purchase (₹ in lakh)	Rate of tax	Rate of penalty imposable	Penalty leviable (₹ in lakh)
1.	DC(A) Sec-4, CT, Bareilly	1	2006-07 (March 2009)	Tiles	33.28	16	24	7.99
2.	AC Sec-1 CT, Bareilly	1	2006-07 (August 2008)	Tiles & AC Equipments	4.40	16	24	1.06
3.	DC(A) Sec-1, CT, Ghaziabad	1	2006-07 (March 2009)	Cable, Castic Soda flask, Mustered oil	64.66	10	15	9.70
4.	DC(A) Sec-9, CT, Kanpur	1	2005-06 (February 2009)	Hydrogen Gas	12.53	12	18	2.26
5.	AC-6 CT, Meerut	1	2003-04 (December 2005)	Tarfelt (20)	3.90	20	30	1.17
			2004-05 (March 2007)	WPM (20)	3.24	20	30	0.97
6.	AC(A)-4,CT, Moradabad	1	2004-05 (January 2009)	Machinery & Aluminium	80.26	10	15	12.04
				Iron sheet,	2.77	8	12	0.33
				wax	2.15	20	30	0.65
7.	DC-5 CT, Moradabad	1	2006-07 (February 2009)	Turpentine Oil & Varnish	109.37	12	18	19.69
8.	AC Sec-4 CT, Noida	1	2004-05 (January 2007)	Split Air Conditioner	5.46	16	24	1.31
9.	DC(A) Sec-4, CT, Noida	1	2001-02 (September 2007)	Leather	13.93	8	12	1.67
				Box, Polythene cover	4.33	10	15	0.65
10.	DC(A)- 9 CT Noida	1	2006-07 (March 2009)	Chemical, hanger, pattern paper & buckals	17.88	10	15	2.68
<b>Total</b>		<b>10</b>			<b>358.16</b>			<b>62.17</b>

**APPENDIX-X**

**Loss of excise duty due to short lifting of Minimum Guaranteed Quota (MGQ) of  
country liquor.  
(Reference Para No. 3.8)**

Sl. No.	Name of unit	Month of Audit	No. of licensees who lifted short quantity of CL	Quantity lifted (in BL)	MGQ (in BL)	Year	Rate of duty per BL (in `)	Quantity Short lifted (in BL)	Amount of licence fee to be recovered (in `)
1.	DEO, Allahabad	May 2009	29	7,57,911.30	7,93,314	2008-09	104	35,402.70	36,81,881
2.	DEO, Etawah	May 2009	30	5,19,991.96	5,51,617	2008-09	104	31,625.04	32,89,004
3.	DEO, Ghaziabad	June 2009	08	5,06,789.71	5,14,750	2008-09	104	7,960.29	8,27,870
4.	DEO, Gorakhpur	January 2010	05	93,606.72	95,616	2008-09	104	2,009.28	2,08,965
5.	DEO, Jhansi	January 2010	10	53,323.00	62,420	2008-09	104	9,097.00	9,46,088
6.	DEO, Mathura	July 2009	09	1,28,113.58	1,32,990	2008-09	104	4,876.42	5,07,148
7.	DEO, Mau	February 2010	01	9,321.43	10,356	2008-09	104	1,034.57	1,07,595
8.	DEO, Orai	November 2009	22	3,65,540.54	3,81,701	2008-09	104	16,160.46	16,80,688
9.	DEO, Varanasi	January 2010	14	3,56,902.39	3,74,919	2008-09	104	18,016.61	18,73,728
<b>Total</b>			<b>128</b>	<b>27,91,500.63</b>	<b>29,17,683</b>			<b>1,26,182.37</b>	<b>1,31,22,967</b>

**APPENDIX-XI**

**Loss of revenue due to transit loss of Total Reducing Sugar (TRS)**  
(Reference Para No. 3.10)

Sl. No.	Name of Distillery	Month and Year concerned	No. of Passes	Molasses received (In quintals)	Details of TRS (In percentage)			Quantity of TRS lost in transit (In quintals)	Quantity of FS lost in transit (88% of TRS) (In quintals)	Quantity of Alcohol that could have been produced (52.5 AL per quintal of FS) (In AL)	Rate of Excise Duty per BL (in reference to 42.8% v/v strength) (In `)	Duty Involved (In `)
					Dispatched	Received	Difference					
1	Simbhauri, Ghaziabad	January 2009	24	6,324.35	47.00	46.20	0.80	50.59	44.52	2,337.30		
			03	4,500.00	47.39	47.00	0.39	17.55	15.44	810.60		
			07	9,100.00	47.39	46.10	1.29	117.39	103.30	5,423.25		
			94	20,758.90	46.00	45.00	1.00	207.59	182.68	9,590.70		
			<b>Total</b>	<b>40,683.25</b>				<b>393.12</b>	<b>345.94</b>	<b>18,161.85</b>	<b>170</b>	<b>72,13,819</b>
2.	Bajaj Hindustan Ltd, Ganganauli, Saharanpur	April 2008	07	2,648.50	44.50	44.26	0.24	6.36	5.60	294.00		
			38	17,681.00	44.59	44.26	0.33	58.35	51.35	2,695.88		
			<b>Total</b>	<b>20,329.50</b>				<b>64.71</b>	<b>56.95</b>	<b>2,989.88</b>	<b>170</b>	<b>11,87,569</b>
3.	Co-operative sugar mills Distillery, Anoop Sahar, Bulandsahar	March 2008	10	1,792.40	46.50	45.05	1.45	25.99	22.87	1,200.68		
			05	1,227.20	49.00	47.50	1.50	18.41	16.20	850.50		
			<b>Total</b>	<b>3,019.60</b>				<b>44.40</b>	<b>39.07</b>	<b>2,051.18</b>	<b>162</b>	<b>7,76,381</b>
		April 2008	20	4,060.00	49.00	47.50	1.50	60.90	53.59	2,813.48		
			37	7,349.45	48.50	47.50	1.00	73.49	64.67	3,395.18		
<b>Total</b>	<b>11,409.45</b>				<b>134.39</b>	<b>118.26</b>	<b>6,208.66</b>	<b>170</b>	<b>24,66,057</b>			
4.	Narang Distillery Gonda	August 2008	29	3,878.00	50.50	46.80	3.70	143.49	126.27	6,629.18		
			40	8,526.65	45.95	44.50	1.45	123.64	108.80	5,712.00		
			10	1,814.30	48.00	46.00	2.00	36.29	31.94	1,676.85		
		September 2008	54	10,023.10	48.00	46.00	2.00	200.46	176.40	9,261.00		
			<b>Total</b>	<b>24,242.05</b>				<b>503.88</b>	<b>443.41</b>	<b>23,279.03</b>	<b>170</b>	<b>92,46,344</b>
5.	K.M. Sugar Mills, Distillery, Faizabad	September 2007	101	21,086.80	44.30	44.10	0.20	42.17	37.11	1,948.28		
			<b>Total</b>	<b>21,086.80</b>				<b>42.17</b>	<b>37.11</b>	<b>1,948.28</b>	<b>48 perAL</b>	<b>93,517</b>
		December 2007	333	68,815.60	44.30	44.00	0.30	206.45	181.68	9,538.20		
		January 2008	98	19,194.00	44.30	44.10	0.20	38.39	33.78	1,773.45		
			<b>Total</b>	<b>88,009.60</b>				<b>244.84</b>	<b>215.46</b>	<b>11,311.65</b>	<b>162</b>	<b>42,81,512</b>
		April to October 2008	229	45,695.00	44.30	44.10	0.20	91.39	80.42	4,222.05		
<b>Total</b>	<b>45,695.00</b>				<b>91.39</b>	<b>80.42</b>	<b>4,222.05</b>	<b>170</b>	<b>16,76,982</b>			

Sl. No.	Name of Distillery	Month and Year concerned	No. of Passes	Molasses received (In quintals)	Details of TRS (In percentage)			Quantity of TRS lost in transit (In quintals)	Quantity of FS lost in transit (88% of TRS) (In quintals)	Quantity of Alcohol that could have been produced (52.5 AL per quintal of FS) (In AL)	Rate of Excise Duty per BL (in reference to 42.8% v/v strength) (In `)	Duty Involved (In `)
					Dis-patched	Received	Difference					
6.	Sir Shadi Lal Distillery, Muzaffar-nagar	November 2009	29	6,675.60	45.22	45.00	0.22	14.69	12.93	678.83		
			51	10,856.80	44.80	44.50	0.30	32.57	28.66	1,504.65		
			6	1,859.50	45.20	45.00	0.20	3.72	3.27	171.68		
			6	1,896.00	45.00	44.00	1.00	18.96	16.68	875.70		
			19	5,553.00	45.00	44.80	0.20	11.11	9.78	513.45		
			59	13,987.90	44.44	44.20	0.24	33.57	29.54	1,550.85		
			7	1,508.60	45.18	45.00	0.18	2.72	2.39	125.48		
			<b>Total</b>	<b>42,337.40</b>						<b>117.34</b>	<b>103.25</b>	<b>5,420.64</b>
<b>Grand total</b>				<b>2,96,812.65</b>				<b>1,636.24</b>	<b>1,439.87</b>	<b>75,593.22</b>		<b>2,92,21,889</b>

**APPENDIX – XII**

**Recovery Certificates returned without realisation of dues/arrears  
(Reference Para No. 4.5.8.2)**

Sl. No.	Name of unit	No. of vehicles	Amount (in `)	Period to which arrears belongs to	Delay in issuing RC (after one year from the year to which RC pertains)
1.	RTO Agra	14	5,75,748	2004-05 to 2008-09	upto 3 years
2.	RTO Azamgarh	13	6,68,940	2004-05 to 2007-08	upto 2 years
3.	RTO Faizabad	99	1,34,81,037	1983-84 to 2007-08	upto 20 years
4.	RTO Meerut	453	93,85,582	Not available	Not available
5.	RTO Saharanpur	44	21,24,135	2003-04 to 2006-07	upto 2 years
6.	RTO Varanasi	33	16,82,838	1992-93 to 2006-07	upto 10 years
7.	ARTO Barabanki	10	2,23,263	2004-05 to 2006-07	upto 3 years
8.	ARTO Bijnore	131	19,01,720	1997-98 to 2008-09	upto 10 years
9.	ARTO Budaun	130	50,15,134	1995-96 to 2008-09	upto 7 years
10.	ARTO Etawah	3	7,05,500	2002-03 to 2004-05	upto 2 years
11.	ARTO Fatehpur	20	3,11,362	2004-05 to 2008-09	upto 4 years
12.	ARTO Hardoi	6	11,78,351	2004-05 to 2007-08	upto 2 years
13.	ARTO Hathras	3	1,40,616	2001-02 to 2005-06	upto 3 years
14.	ARTO Kanpur Dehat	4	1,33,500	2003-04 to 2006-07	upto 2 years
15.	ARTO Mathura	29	44,97,979	2004-05 to 2006-07	upto 1 year
16.	ARTO Sultanpur	13	2,48,652	1992-93 to 2003-04	upto 9 years
	<b>Total</b>	<b>1,005</b>	<b>4,22,74,357</b>		

**APPENDIX-XIII****Short assessment of additional tax on stage carriage  
(Reference Para No. 4.5.15.1)**

(Amount in `)

Sl. No.	Name of unit	No of Vehicles	Additional Tax leviable	Additional Tax Levied	Additional Tax short realised
1.	RTO Agra	32	51,32,449	38,02,743	13,29,706
2.	RTO Bareilly	130	1,23,74,432	71,89,647	51,84,785
3.	RTO Gorakhpur	25	62,03,856	44,39,100	17,64,756
4.	RTO Jhansi	6	10,77,868	5,13,205	5,64,663
5.	RTO Kanpur Nagar	146	3,16,88,354	1,87,17,735	1,29,70,619
6.	RTO Lucknow	53	92,70,070	33,20,989	59,49,081
7.	RTO Meerut	86	1,86,03,324	79,11,045	1,06,92,279
8.	RTO Moradabad	31	49,51,692	22,32,000	27,19,692
9.	RTO Varanasi	92	5,46,70,052	3,50,27,021	1,96,43,031
10.	ARTO Balrampur	27	20,66,484	11,64,672	9,01,812
11.	ARTO Barabanki	15	33,84,000	23,04,000	10,80,000
12.	ARTO Basti	5	9,48,021	6,50,504	2,97,517
13.	ARTO Budaun	33	1,02,67,003	73,40,510	29,26,493
14.	ARTO Chandauli	6	36,90,240	14,43,840	22,46,400
15.	ARTO Jaunpur	14	16,68,892	12,29,955	4,38,937
16.	ARTO Mathura	42	1,85,45,504	1,34,28,260	51,17,244
17.	ARTO Raebareli	5	7,39,137	6,03,641	1,35,496
	<b>Total</b>	<b>748</b>	<b>18,52,81,378</b>	<b>11,13,18,867</b>	<b>7,39,62,511</b>

**APPENDIX -XIV****Short assessment of additional tax on stage carriage  
(Reference Para No. 4.5.15.2)**

Sl.No.	Name of unit	No of vehicles	Amount (in `)
1.	RTO Moradabad	110	84,97,688
2.	ARTO Etawah	18	7,96,620
3.	ARTO Hardoi	7	1,71,840
4.	ARTO Mathura	23	3,29,728
5.	ARTO Unnao	85	33,89,378
	<b>Total</b>	<b>243</b>	<b>1,31,85,254</b>

**APPENDIX-XV**

**Non-levy of tax on laden weight of the vehicle  
(Reference Para No. 4.5.16)**

SI. No.	Name of unit	No of vehicles	Amount (in `)
1.	RTO Allahabad	219	16,47,450
2.	RTO Azamgarh	101	3,73,005
3.	RTO Bareilly	835	6,17,805
4.	RTO Faizabad	199	23,34,825
5.	RTO Ghaziabad	180	2,59,200
6.	RTO Gorakhpur	179	10,49,355
7.	RTO Jhansi	3,820	54,63,855
8.	RTO Meerut	198	15,99,075
9.	RTO Mirzapur	51	4,39,200
10.	RTO Varanasi	1,954	58,63,545
11.	ARTO Basti	280	6,73,965
12.	ARTO Budaun	97	20,700
13.	ARTO Farrukhabad	68	1,41,120
14.	ARTO Hardoi	34	3,58,560
15.	ARTO Jaunpur	68	2,68,335
16.	ARTO Pratapgarh	132	7,00,740
	<b>Total</b>	<b>8,415</b>	<b>2,18,10,735</b>
	<b>Amount of penalty (25%)</b>		<b>54,52,684</b>

**APPENDIX-XVI****Loss due to vehicles plying without certificate of fitness  
(Reference Para No. 4.5.17)**

Sl. No.	Name of unit	No. of vehicles	Fee (in `)	Penalty (in `)
1.	RTO Agra	412	4,82,500	10,30,000
2.	RTO Azamgarh	209	1,04,500	5,22,500
3.	RTO Bareilly	3,799	48,48,500	94,97,500
4.	RTO Faizabad	795	8,69,100	19,87,500
5.	RTO Ghaziabad	714	5,89,000	17,85,000
6.	RTO Gorakhpur	47	23,500	1,17,500
7.	RTO Jhansi	1,319	10,03,100	32,97,500
8.	RTO Lucknow	2,487	24,26,600	62,17,500
9.	RTO Moradabad	142	84,500	3,55,000
10.	RTO Saharanpur	54	37,500	1,35,000
11.	RTO Varanasi	10,598	1,65,12,500	2,64,95,000
12.	ARTO Barabanki	573	6,92,500	14,32,500
13.	ARTO Bijnore	667	6,46,100	16,67,500
14.	ARTO Hardoi	171	85,500	4,27,500
15.	ARTO Mathura	72	36,000	1,80,000
16.	ARTO Raebareli	733	7,77,900	18,32,500
17.	ARTO Unnao	307	2,90,000	7,67,500
	<b>Total</b>	<b>23,099</b>	<b>2,95,09,300</b>	<b>5,77,47,500</b>
			<b>G. Total</b>	<b>8,72,56,800</b>

**APPENDIX-XVII**

**Non-application of new registration mark  
(Reference Para No. 4.5.18)**

Sl. No.	Name of unit	No. of vehicles	Amount (In `)
1.	RTO Allahabad	124	68,800
2.	RTO Azamgarh	2	900
3.	RTO Bareilly	1,659	9,55,500
4.	RTO Faizabad	96	51,300
5.	RTO Jhansi	51	30,600
6.	RTO Meerut	293	1,55,200
7.	RTO Mirzapur	125	68,200
8.	RTO Varanasi	35	20,800
9.	ARTO Auraiya	32	16,000
10.	ARTO Bagpat	130	75,200
11.	ARTO Barabanki	83	33,240
12.	ARTO Bijnore	166	91,660
13.	ARTO Chandauli	105	60,100
14.	ARTO Etawah	24	14,400
15.	ARTO G B Nagar (NOIDA)	554	1,32,500
16.	ARTO Hathras	66	39,600
17.	ARTO Jaunpur	51	30,600
18.	ARTO Kanpur Dehat	52	30,600
19.	ARTO Mathura	108	64,800
20.	ARTO Mau	63	37,800
21.	ARTO Moradabad	345	2,07,000
22.	ARTO Raebareli	128	31,260
	<b>Total</b>	<b>4,292</b>	<b>22,16,060</b>

**APPENDIX-XVIII****Loss of revenue due to non-renewal of registration of forwarding/travel agents  
(Reference Para No. 4.5.19)**

(Amount in ` )

SI. No.	Name of unit	No of Agencies	Security Deposit	Fee	Total Amount
1.	RTO Bareilly	5	50,000	8,000	58,000
2.	RTO Faizabad	38	3,80,000	40,000	4,20,000
3.	RTO Gorakhpur	7	70,000	7,000	77,000
4.	RTO Kanpur Nagar	82	8,20,000	82,000	9,02,000
	<b>Total</b>	<b>132</b>	<b>13,20,000</b>	<b>1,37,000</b>	<b>14,57,000</b>

**APPENDIX-XIX****Revenue not realised due to non-auction of seized vehicles  
(Reference Para No. 4.5.21)**

SI. No.	Name of unit	No. of vehicles	Amount (in ` )
1.	RTO Agra	6	54,246
2.	RTO Azamgarh	12	3,31,114
3.	RTO Mirzapur	24	2,09,354
4.	RTO Moradabad	5	4,08,412
5.	ARTO Barabanki	10	5,23,102
6.	ARTO Bijnore	11	7,41,012
7.	ARTO Jaunpur	16	3,96,800
8.	ARTO Mathura	3	7,30,582
9.	ARTO Sultanpur	5	1,34,546
	<b>Total</b>	<b>92</b>	<b>35,29,168</b>

**APPENDIX-XX**

**Man power management  
(Reference Para No. 4.5.23)**

Sl. No.	Name of the Office	No. of Sanctioned Post	No. of Persons Deployed	Shortage against Sanctioned Post	Excess Deployed
1.	RTO Lucknow	62	106	0	44
2.	RTO Meerut	67	79	0	12
3.	RTO Mirzapur	40	49	0	9
4.	ARTO Sultanpur	25	26	0	1
5.	RTO Jhansi	89	63	26	0
6.	ARTO Auraiya	14	5	9	0
7.	ARTO Budaun	17	11	6	0
8.	ARTO Mau	18	14	4	0
	<b>Total</b>	<b>332</b>	<b>353</b>	<b>45</b>	<b>66</b>

**APPENDIX-XXI**

**Revenue receipt of Transport offices having shortage/surplus staff  
(Reference Para No. 4.5.23)**

(` in crore)

Sl. No.	District	Revenue receipt				Percentage of increase in revenue receipt in comparison to that of previous year		
		2005-06	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
<b>Offices having shortage of staff:</b>								
1.	Jhansi	15.74	17.31	19.03	24.56	9.97	9.94	29.06
2.	Auraiya	3.64	4.21	4.52	5.27	15.66	7.36	16.59
3.	Budaun	5.97	6.78	7.47	8.78	13.57	10.18	17.54
4.	Mau	4.68	5.16	5.55	7.46	10.26	7.56	34.41
<b>Offices having surplus staff:</b>								
1.	Lucknow	313.33	372.75	407.61	450.33	18.96	9.35	10.48
2.	Meerut	28.04	28.97	32.70	40.78	3.32	12.88	24.71
3.	Mirzapur	11.56	12.50	13.90	17.10	8.13	11.20	23.02
4.	Sultanpur	8.11	8.70	9.77	13.13	7.27	12.30	34.39

**APPENDIX-XXII**

**Challaned cases not sent to court  
(Reference Para No. 4.5.24)**

Sl. No.	Name of unit	No. of cases	Amount (In `)
1.	RTO Bareilly	27	1,98,950
2.	RTO Mirzapur	63	29,000
3.	ARTO Auraiya	31	3,42,350
4.	ARTO Barabanki	141	12,90,200
5.	ARTO Muzaffarnagar	20	1,91,700
	<b>Total</b>	<b>282</b>	<b>20,52,200</b>

**APPENDIX-XXIII****Short levy of stamp duty due to incorrect valuation***(Reference Para No. 5.8)*

( in lakh)

Sl. No.	Name of unit	Khand & Deed No.	Month of registration audit	Area of land in Square meter	Property valuation		Stamp duty		Stamp duty short levied
					as per deed	as per market rate	leviable	levied	
<b>(A) Non-Agricultural land registered at agricultural land rate</b>									
1.	Sub-Registrar Jewar, G.B.Nagar	356 806	March 2008 June 2008	13,373.00	53.50	106.99	8.56	4.32	4.24
2.	Sub-Registrar Khaga, Fatehpur	1613 1807	April 2008 January 2009	1,566.67	6.24	34.47	2.36	0.38	1.98
3.	Sub-Registrar Etah	5590 5976	July 2008 November 2008	3,284.00	4.93	52.55	3.68	0.35	3.33
4.	Sub-Registrar II Aligarh	2822 7115	August 2008 October 2008	3,328.00	6.50	29.96	2.10	0.46	1.64
5.	Sub-Registrar Madihan, Mirzapur	495 1486	August 2008 June 2009	17,870.00	5.61	114.02	7.98	0.42	7.56
6.	Sub-Registrar V, Agra	2294 1218	June 2009 June 2009	10,000.00	30.00	150.00	7.50	1.50	6.00
7.	Sub-Registrar Robertsganj, Sonbhadra	2437 1353	April 2008 October 2009	10,000.00	18.00	165.00	16.50	1.80	14.70
<b>Total (A)</b>					<b>124.78</b>	<b>652.99</b>	<b>48.68</b>	<b>9.23</b>	<b>39.45</b>
<b>(B) Residential land registered at Industrial rate of land</b>									
8.	Sub-Registrar, Chandpur, Bijnore	4006 4647	May 2008 February 2009	18,990.00	33.12	81.22	6.50	2.65	3.85
<b>Total (B)</b>					<b>33.12</b>	<b>81.22</b>	<b>6.50</b>	<b>2.65</b>	<b>3.85</b>
<b>(C) Road side land registered at away from road side rate</b>									
9.	Sub-Registrar-III, Lucknow	5895 2523	April 2007 March 2008	743.11	11.52	96.61	9.46	0.95	8.51
10.	Sub-Registrar, Bagpat	3325 4200	August 2007 August 2008	16,981.25	166.00	267.77	21.42	13.28	8.14
<b>Total (C)</b>					<b>177.52</b>	<b>364.38</b>	<b>30.88</b>	<b>14.23</b>	<b>16.65</b>
<b>Grand total (A+B+C)</b>					<b>335.42</b>	<b>1,098.59</b>	<b>86.06</b>	<b>26.11</b>	<b>59.95</b>

**Remarks:**

**Sl.No. 1 and 5**-Land purchased by firm associated with fashion business and U.P. Power Corporation respectively.

**Sl.No. 2**- Small piece of land bounded by residential house from two sides and purchased by two different buyers in equal share.

**Sl.No. 3 and 4**-Part of the purchased land has earlier been valued at residential rate.

**Sl.No. 6**-Land purchased for the establishment of degree college.

**Sl.No. 7**-Nature of purchased land as mentioned in deed is commercial not agricultural.

**Sl.No. 8**-Land has been declared non-agricultural and purchased by an individual. Rooms are constructed in a part of the land.

**Sl.No. 9 and 10**-Part of the purchased land has earlier been valued at the rate of road side land.