

CHAPTER-VI

REVENUE RECEIPTS

6.1 GENERAL

6.1.1 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Nagaland during the year 2007-08, 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:

Table 6.1

(Rupees in crore)

Sl. No.	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
I.	Revenue raised by the State Government					
	• Tax revenue ¹	68.55	78.31	105.53	119.02	131.37
	• Non-tax revenue	60.91	77.90	96.82	91.14	119.48
	Total: I	129.46	156.21	202.35	210.16	250.85
II.	Receipts from the Government of India					
	• State's share of divisible Union taxes	256.97 ²	160.15	248.50	316.93	399.77
	• Grants-in-aid	1,973.36	1,523.16	1,816.35	2,245.42	2,345.40
	Total: II	2,230.33	1,683.31	2,064.85	2,562.35	2,745.17
III.	Total receipts of the State Government (I plus II)	2,359.79	1,839.52	2,267.20	2,772.51	2,996.02
IV.	Percentage of I to III	5	8	9	8	8

The above table indicates that during the year 2007-08 the revenue raised by the State Government was eight *per cent* of the total revenue receipts (Rs. 2,996.02 crore) against eight *per cent* in the preceding year (Rs. 2,772.51 crore). The balance of 92 *per cent* of receipts during 2007-08 was from the Government of India.

6.1.2 The following table represents the details of tax revenue raised during the period from 2003-04 to 2007-08:

¹ For details see Statement no. 11 - Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Nagaland for the year 2007-08. Figures under Major heads 0020, 0021, 0028, 0032, 0037, 0038, 0044 and 0045 - showing the State's share of divisible Union taxes booked in the Finance Accounts under A - Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table.

² The figures for 2003-04 includes unadjusted share of Central taxes of Rs. 52.15 crore and Rs. 52.02 crore for the years 2001-02 and 2002-03 respectively.

Table 6.2

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase(+)/ decrease (-) in 2007-08 over 2006-07
1.	Taxes on sales, trade etc.,	45.63	53.08	77.16	85.02	94.79	(+) 11
2.	Taxes on Vehicles	6.00	7.30	8.71	12.26	12.30	(+) 0.32
3.	Other Taxes on Income and Expenditure	12.63	13.56	14.89	16.35	17.72	(+) 8
4.	State Excise	1.99	2.07	1.96	2.13	2.83	(+) 33
5.	Stamps and Registration fees	0.66	0.73	0.89	1.05	1.02	(-) 3
6.	Other Taxes and duties	0.06	0.03	0.01	0.00	0.00	0
7.	Land Revenue	0.54	0.43	0.55	0.50	0.50	0
8.	Taxes and Duties on Electricity	0.01	0.01	0.01	0.02	0.02	0
9.	Taxes on Goods and Passengers	1.03	1.10	1.35	1.69	2.19	(+) 30
Total:		68.55	78.31	105.53	119.02	131.37	(+) 10

The concerned departments did not inform (September 2008) the reasons for variation, despite being requested (July 2008).

6.1.3 The following table presents the details of the major non-tax revenue raised during the period from 2003-04 to 2007-08:

Table 6.3

(Rupees in crore)

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
1.	Interest Receipts	5.61	3.27	5.60	5.22	5.66	(+) 8
2.	Public Service Commission	0.23	0.13	0.01	0.00	0.00	00
3.	Police	0.17	0.41	1.56	2.15	2.73	(+) 27
4.	Stationery and Printing	0.01	0.01	0.05	0.08	0.07	(-) 13
5.	Public Works	0.75	0.22	0.17	0.31	0.10	(-) 68
6.	Other Administrative Services	3.96	5.54	7.10	1.46	1.93	(+) 32
7.	Contribution and recoveries towards Pension & Other	0.12	0.10	0.40	0.23	0.21	(-) 9

Sl. No.	Head of revenue	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+)/ decrease (-) in 2007-08 over 2006-07
	Retirement Benefits						
8.	Miscellaneous General Services	2.10	11.70	15.64	14.59	19.44	(+) 33
9.	Education, Sports, Art and Culture	0.19	0.19	0.22	1.64	0.48	(-) 71
10.	Medical and Public Health	0.06	0.06	0.07	0.13	0.16	(+) 23
11.	Water Supply and Sanitation	0.80	0.97	1.06	2.26	1.07	(-) 53
12.	Housing	2.19	2.18	2.23	2.21	2.11	(-) 5
13.	Social Security and Welfare	0.56	0.03	0.31	0.16	0.31	(+) 94
14.	Crop Husbandry	0.06	0.09	0.06	0.15	0.12	(-) 20
15.	Animal Husbandry	0.22	0.33	0.37	0.35	0.39	(+) 11
16.	Forestry and Wildlife	3.43	3.88	6.21	5.95	4.81	(-) 19
17.	Food Storage and Warehousing	0.05	0.02	0.02	0.03	0.03	00
18.	Co-Operation	0.42	0.84	0.89	0.92	0.17	(-) 82
19.	Other Agricultural Programmes	0.04	0.05	0.04	0.05	0.01	(-) 80
20.	Minor Irrigation	0.01	0.03	0.01	0.00	0.01	00
21.	Power	29.30	39.66	42.71	41.63	69.47	(+) 67
22.	Village and Small Industries	0.25	0.46	1.30	0.21	0.26	(+) 24
23.	Non-ferrous Mining and Metallurgical Industries	0.05	0.10	0.05	1.91	0.30	(-) 84
24.	Road Transport	5.75	6.79	7.34	8.03	8.37	(+) 4
25.	Tourism	0.20	0.17	0.26	0.30	0.21	(-) 30
26.	Other General Economic Services	0.07	0.06	2.57	0.07	0.08	(+) 14
27.	Miscellaneous	4.31	0.61	0.57	1.10	0.98	(-) 11
	Total	60.91	77.90	96.82	91.14	119.48	(+) 31

The concerned departments did not inform (September 2008) the reasons for variations, despite being requested (July 2008).

6.1.4 Variations between the budget estimates and actuals

The variations between the budget estimates and actuals of revenue receipts for the year 2007-08 in respect of the principal heads of tax and non-tax revenue are mentioned below:

Table 6.4

(Rupees in crore)

Sl. No.	Head of revenue	Budget estimates	Actual receipts	Variations excess (+) shortfall (-)	Percentage of variation
1.	Other taxes on Income and Expenditure	15.16	17.72	(+) 2.56	17
2.	State Excise	2.92	2.83	(-) 0.09	03
3.	Taxes on Sales, Trade etc.	99.14	94.79	(-) 4.35	04
4.	Taxes on Vehicles	7.93	12.30	(+) 4.37	55
5.	Interest Receipts	3.40	5.66	(+) 2.26	66
6.	Police	0.55	2.73	(+) 2.18	396
7.	Stationery and Printing	0.26	0.07	(-) 0.19	73
8.	Public Works	1.28	0.10	(-) 1.18	92
9.	Other Administrative Services	4.67	1.93	(-) 2.74	59
10.	Contribution and Recoveries and Other Retirement Benefits	0.21	0.21	0.00	00
11.	Miscellaneous General Services	10.00	19.44	(+) 9.44	94
12.	Social Security and Welfare	0.19	0.31	(+) 0.12	63
13.	Forestry & Wildlife	5.42	4.81	(-) 0.61	11
14.	Co-Operation	0.05	0.17	(+) 0.12	240
15.	Power	52.80	69.47	(+) 16.67	32
16.	Village and Small Industries	0.21	0.26	(+) 0.05	24
17.	Road Transport	11.15	8.37	(-) 2.78	25
18.	Other General Economic Services	0.09	0.08	(-) 0.01	11
19.	Land Revenue	0.64	0.50	(-) 0.14	22
20.	Stamps & Registration Fee	0.93	1.02	(+) 0.09	10
21.	Taxes and Duties on Electricity	0.01	0.02	(+) 0.01	100
22.	Public Service Commission	0.19	0.00	(-) 0.19	100
23.	Education, Sports, Art & Culture	0.26	0.48	(+) 0.22	85
24.	Medical & Public Health	0.16	0.16	0.00	00
Total		217.62	243.43	(+) 25.81	11.86

The concerned departments did not inform (September 2008) the reasons for variations, despite being requested.

6.1.5 Cost of collection

The gross collection in respect of the major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2005-06, 2006-07 and 2007-08 along with the relevant all India average percentage of expenditure on collection to gross collection for the year 2006-07, are mentioned below:

Table 6.5

(Rupees in crore)

Sl. No.	Head of revenue	Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage for the year 2006-07
1.	Taxes on sales, trade etc.	2005-06	77.16	4.58	5.93	0.82
		2006-07	85.02	4.37	5.13	
		2007-08	94.79	4.48	4.73	
2.	State excise	2005-06	1.96	5.78	294.89	3.30
		2006-07	2.13	5.82	273.23	
		2007-08	2.83	6.24	220.49	
3.	Taxes on vehicles	2005-06	8.71	2.36	27.09	2.47
		2006-07	12.26	2.45	19.98	
		2007-08	12.30	2.79	22.68	
4.	Stamps and registration fees	2005-06	0.89	0.07	7.86	2.33
		2006-07	1.05	0.26	24.76	
		2007-08	1.02	0.38	37.25	

Thus, the percentage of expenditure on collection during 2007-08 as compared to the corresponding all India average percentage of expenditure on collection for 2006-07 was substantially high in the cases of taxes on sales and trade etc., state excise, taxes on vehicles and stamps and registration fees. The expenditure on collection of state excise was more than twice the revenue collected. The Government needs to look into these aspects seriously. This indicates poor tax administration in the State.

6.1.6 Analysis of arrears of revenue

The arrear of revenue as on 31 March 2008 in respect of Government departments have not been furnished.

6.1.7 Write-off and waiver of revenue

The departments did not inform (September 2008) the details of amount written off, despite being requested (July 2008).

6.1.8 Results of audit

Test check of the records of sales tax, motor vehicle tax, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2007-08 revealed underassessment/short levy/non-levy/loss of revenue amounting to Rs. 203.39 crore in 114 cases. The concerned departments did not inform (September 2008) the amount recovered despite being requested.

This report contains three paragraphs and an information technology audit of IT systems meant for registration of vehicles and issue of national permits and driving licences involving money value of Rs. 6.51 crore.

6.1.9 Outstanding inspection reports and audit observations

The Accountant General (AG), Nagaland, Kohima conducts periodical inspection of various offices of the Government departments to test check the correctness of assessments, levy and collection of taxes/duties/fees etc., and verify the maintenance of accounts and records as per the Acts, Rules and procedures prescribed by the Government. These inspections are followed by inspection reports (IRs) issued to the heads of offices inspected with copies to the higher authorities. Serious irregularities noticed during audit are also brought to the notice of Government/head of the department by the AG. A half yearly report regarding pending IRs is sent to the Secretaries of the concerned Government departments to facilitate monitoring and settlement of audit observations raised in these IRs through intervention of the Government.

IRs issued upto December 2007 pertaining to the offices under sales tax, state excise, motor vehicles tax, etc. disclosed that 72 observations involving money value of Rs. 288.55 crore were pending at the end of June 2008 as mentioned below:

Table 6.6

(Rupees in crore)

Sl. No.	Nature of irregularities	Number of paragraphs	Amount
1.	Loss of revenue	25	194.32
2.	Misappropriation of Government money	16	6.86
3.	Non-realisation of sales tax	7	5.12
4.	Evasion of tax	7	75.69
5.	Revenue outstanding for collection	12	4.83
6.	Others	5	1.73
Total		72	288.55

The Government immediately needs to review all the lapses and initiate corrective action with due intimation to the Accountant General.

6.1.10 Compliance with the earlier Audit Reports

In the Audit Reports 2002-03 to 2006-07, observations relating to evasion of tax, non-realisation of revenue, unauthorised retention of Government revenue etc., involving Rs. 6.59 crore were included, Of these, as of October 2008, the departments concerned had accepted audit observations involving Rs. 1.65 crore and recovered Rs.36 lakh. Audit Reports-wise details of cases accepted and revenue recovered is as under:

Table 6.7

(Rupees in crore)				
Sl. No.	Year	Money value of Audit Report	Amount accepted by the departments	Amount recovered
1.	2002-03	1.12	Nil	Nil
2.	2003-04	2.78	0.02	Nil
3.	2004-05	1.50	1.37	0.12
4.	2005-06	0.02	0.02	Nil
5.	2006-07	1.17	0.24	0.24
Total		6.59	1.65	0.36

6.1.11 Audit Committee Meeting

During the year 2007-08, no audit committee meetings were held.

TRANSPORT AND COMMUNICATION DEPARTMENT

6.2 Information Technology audit of IT systems meant for registration of vehicles and issue of national permits and driving licenses

Highlights

- **There was lack of system and user documentation.**
(Paragraph 6.2.6.1)
- **Suspected loss of revenue due to deletion of data from cash database.**
(Paragraph 6.2.8)
- **Differences in cash receipts database and actual deposits into Government account.**
(Paragraph 6.2.9)
- **Lack of controls resulted in multiple registration of same vehicle.**
(Paragraph 6.2.11)
- **Lack of monitoring of database for extracting information led to non-detection of cases related to vehicles having expired registration validity and those with overdue tax.**
(Paragraph 6.2.13)

6.2.1 Introduction

Motor Vehicle Department began computerisation of its functions in 1993 with the introduction of the computerised issue of national permits in the office of Transport

Commissioner (TC). Vehicle registration system was installed in the Regional Transport Office (RTO), Kohima in the year 1998. At present all the eight offices of the RTOs/district transport offices (DTOs) along with the office of the TC have computerised functions pertaining to registration of vehicles and national permits. However, computerised issue of driving license is only being done at RTO, Kohima and DTO, Dimapur which started in the year 2003.

6.2.2 Organisational setup

The Transport and Communication Department is headed by a Commissioner and Secretary at State level who in turn is assisted by a Transport Commissioner, one Joint Transport Commissioner, and one Deputy Transport Commissioner. There are two regional transport officers and six district transport officers at district level.

6.2.3 Overview of the system

The department spent Rs. 1.58 crore for installation of computer systems for all the nine offices from 1993-94 to 2007-08. The software for vehicle registration system and national permit was earlier developed as a Foxpro application by a private firm M/s Nagasoft Computers.

All offices had separate local area network installed and functioning under Novell Netware Server which houses the database. Dump terminals and PCs are used as client computers.

All RTOs/DTOs except DTO, Dimapur are using legacy system developed by M/s Nagasoft Computers for registration of vehicles. In DTO, Dimapur, an MS Access based upgraded system is in use for registration of vehicles and issue of smart cards as registration certificates.

A smart card based system was in use in RTO, Kohima and DTO, Dimapur for issue of driving licenses. Other RTOs/DTOs were not computerised as regards the function of issue of driving licenses.

The department is in the process of upgrading its vehicle registration system and driving license issuing system into a national software being introduced all over India and developed by National Informatics Centre i.e., “Vahan” and “Sarathi”. In fact “Sarathi” was introduced in RTO, Kohima in 2006 but had to be discontinued temporarily due to system failure. During the course of audit (May 2008), the department resumed “Sarathi” in RTO, Kohima.

6.2.4 Audit objectives

The objective of audit was to assess the extent of achievement of the objectives of computerisation for speedy processing to achieve quick public delivery, increase revenue earnings and transparent and correct revenue accounting.

6.2.5 Scope of audit and methodology

An entry conference was held on 6 May 2008 with the Secretary, Transport wherein the audit objectives, criteria and audit methodology were discussed. IT Audit on the vehicle registration system, IT applications for issue of national permit and driving license was conducted between April and June 2008 through test check of records, policies, manual and procedures and analysis of the computerised data in the Transport Commissioner office at directorate level, Regional Transport Offices in Kohima and Mokokchung and District Transport Office, Dimapur. For this purpose, the data of the vehicle registration system and IT application for issue of national permit and driving license were downloaded and analysed using IDEA and MS Access. Exit conference was held on 06 November 2008 with the Commissioner and Secretary and Transport Commissioner.

Audit findings

6.2.6 Implementation

6.2.6.1 Lack of documentation and undue reliance on a particular firm

The department got the software developed for issuing national permits and vehicle registration by outsourcing to a local firm (M/s Nagasoft) in 1993-94. The firm was also engaged in frequent modifications to the software “as and when required” by the department. It was observed that no memorandum of understanding was signed with the private firm on behalf of the Government regarding development and implementation of the software. Also, the department had not taken up with the firm to confer the rights of the software to the department. The firm had neither provided any documentation on the software nor did the department have any track of the modifications that were carried out. The department stated that though the firm had been engaged to modify the software from time to time, no payments for such services were made to the firm. On verification of records, it was, however, noticed that the same firm was engaged in supply of hardware/software including supply of pre-printed stationery (national permit, authorisation form, registration certificate, etc) to the department. In addition, on verification of hardware stock records, differences were noticed in the actual supply and hardware stock, which indicated that to commensurate the support services on software provided by the firm, the firm was provided with supply orders on hardware/software, pre-printed stationery. Further, by providing supply orders for pre-printed stationery to the same firm who developed the software as well as holding the right of possession of the software, the department risks the security related aspects on the registration of vehicles and issue of national permits.

6.2.6.2 Lack of monitoring controls for overseeing the process for issue of registration certificates and driving licences

An agreement on build operate and transfer (BOT) basis was entered (March 2001) between the Transport and Communication Department, Government of Nagaland and M/s Subba Microsoft System, New Delhi for issue of computerised vehicle registration certificates/driving licenses. As per clause 9(b) of the agreement, data was to be stored by the department at a central location. It was noticed that the entire computerised function

of vehicle registration and issue of driving licence including data entry for printing of RCs/driving license (except receipt of cash on taxes and fees) was carried out by the firm. Possession of database was with the firm. The office was only provided with a link to the database (in workgroup network) on a single computer. Once the data was entered into the system of the firm, the firm could print any number of copies of smart card based driving license and RC without the knowledge of the DTO. Such a loophole in the system at DTO, Dimapur created possibilities of issue of smart cards without the knowledge of the DTO. The department stated that the firm could not print the smart card without an “Activation Card” containing the signature and other details of the DTO, connected to the system of the firm. It was noticed that the “Activation Card” was always connected to the PC of the firm and the Smart Cards were not issued in the presence of the DTO or any official representing the DTO, thereby, defeating all security controls.

The Government accepted (November 2008) the facts and assured improvement in future after introducing new security controls.

6.2.7 Inadequate IT Security

6.2.7.1 Weak access controls

On analysis of the databases of RTOs, Kohima and Mokokchung and DTO, Dimapur, it was found that almost all users logged into the system using the user name “super” (synonym for Supervisor) with supervisory rights and password. It was noticed in audit that the password for the user “Super” (Supervisor) was also known to all computer operators.

Non-existence of password policy in the department created an environment where all users were having the privileges of a super user and all users were logging into the system using super user id and were sharing a common password. This made the data vulnerable to unauthorised manipulation without recording of any audit trails.

6.2.7.2 Computers infected by viruses

On physical verification of the computers in the office of the TC, RTOs and DTOs, it was noticed that all the computers including the servers were infected by virus. The department was having only one licenced copy of antivirus software.

6.2.7.3 Business continuity plan

Audit observed that backups of data were not being taken on regular intervals in any of the test checked RTOs/DTOs. As such, no backup policy has been framed. Additionally, neither the computer systems nor the manual files and registers are protected by any fire prevention systems.

It was revealed during the audit that the NIC based upgraded system called ‘*Sarathi*’ for issue of driving licenses was implemented in July 2006 at RTO Kohima. However, the operations were discontinued during the period October 2007 to May 2008 because of server crash and hard disk failure. The database containing information on driving license

issued during the period could not be retrieved till now. The office did not have any backup of the data at the time of system crash.

The lapse to frame and execute a business continuity policy coupled with lack of timely data backups had already led to loss of valuable data and was prone to more such inevitable losses in the event of a disaster in future.

6.2.8 Suspected loss of revenue on account of unauthorised deletion of records from cash database

The cash module is used for receiving cash, cheques and drafts in respect of taxes and fees for vehicle registration, national permits and driving licenses. After receipt of cash, cheque or draft, a receipt is printed from the system for the customer as an acknowledgement of receipt of cash/cheque or draft. At the end of the day, daily summary sheet on revenue received is printed from the system. *Challans* are made against this summary sheet for depositing into the Government account under major head 0041 and 0042.

Technical analysis of the cash database in the test checked districts revealed that a huge number of records pertaining to daily cash collected were deleted from the database. Since the daily transactions were deleted from the database, the daily summary sheets did not reflect the actual cash collected and deposited into the Government account.

A statement showing number of records unauthorisedly deleted from the system and the money value of such records pertaining to the test checked districts are shown below:

Name of the district	Total no. of records in the database	No. of deleted records	Money value of deleted records (Rs. in crore)
RTO Kohima ³ and TC	6,40,379	47,512	6.20
	71,800	3,137	0.11
DTO, Dimapur ⁴	2,39,638	63,663	3.28
RTO, Mokokchung ⁵	3,42,667	29,249	2.10

In TC, Kohima it was noticed that all cash receipts from 13 January 2006 to 09 February 2006 amounting to Rs. 2.54 lakh has been deleted from the database resulting in non-deposit of the same into Government account which tantamount to fraud.

Scrutiny revealed that the cashiers of these offices log in with “supervisory” rights into the system. Moreover, the module provides full privilege to delete or edit data from the database. As all users log in by same user name and password, it was not possible to trace the person(s) who deleted the cash entries.

Moreover, even though offices function in LAN environment, there were no built in control system for the DDO or the head of the office to monitor daily cash collected.

³ Data from September 1997 to May 2008 (10 years 8 months)

⁴ Data from April 2003 to May 2008 (5 years)

⁵ Data from August 1999 to February 2008 (8 ½ years)

While accepting facts, the Government stated (November 2008) that the deleted data in respect of RTOs/DTOs is under scrutiny.

6.2.9 Differences in cash receipts database and actual deposits into Government account

Data analysis of the cash database revealed that the day-wise summary sheets generated from the database was having different totals than the daily cash deposits. The following discrepancies were noticed:

RTO, Kohima

(Rs. in crore)

Period of verification and analysis	Months	Total cash receipts as per database	Total cash deposited as per treasury and challans	Less deposited into Government account
31.3.2003 to 31.3.2005	24	7.99	6.96	1.03
28.4.2005 to 27.6.2006	14	6.01	5.32	0.69
30.10.2006 to 25.7.2007	7	5.74	4.79	0.95
Total	45	19.74	17.07	2.67

DTO, Dimapur

(Rs. in crore)

Period of verification and analysis	Months	Total Cash receipts as per database	Total Cash deposited as per treasury details and challans	Less deposited into Government account
9.12.2003 to 13.12.2007	48	5.97	5.72	0.25
Total	48	5.97	5.72	0.25

It would be seen from the above tables that the RTO, Kohima and DTO, Dimapur did not deposit Rs. 2.92 crore collected as revenue into Government account during above period resulted in suspected embezzlement of revenue to that extent.

On verification of the summary sheets generated by the RTOs/DTOs, it was noticed that for several days the summary sheets generated differs from the actual figures present in database. It was noticed that summary sheets were prepared before end of transaction of a day. In other words, cash were received after printing the summary sheets and hence this amount was not accounted for and deposited into Government account. Instances were also noticed where the actual deposit differed from the summary sheets printed. It was also noticed that the daily summary sheets printed from the system were neither verified with the cash book and challans nor authenticated and countersigned by DDOs.

Lack of features to generate periodical reports on cash receipts and lack of monitoring by heads of offices and department led to short deposits in Government account resulting in suspected embezzlement of public fund needs investigation by the department.

The Government accepted (November 2008) the facts in respect of DTO, Dimapur. It was further stated that the facts and figures for RTO, Kohima and Mokokchung were under scrutiny by the department.

6.2.10 Input controls

6.2.10.1 Invalid characters/data in the database

There were a number of instances of invalid data/characters in the database maintained in RTOs/DTOs as discussed in succeeding paragraphs. It was generally found that the data was not wholly reliable for management information system (MIS) purposes. It was noticed that the data maintained by RTO, Mokokchung was not sanitised and the same server was being used for training purposes leading to presence of dummy and invalid data in the live database.

6.2.10.2 Incorrect starting and expiry dates in national permits

TC, Kohima issued national permits based on the registration certificate issued by the RTOs. Test check of data in the system for issue of national permits in the office of TC, Kohima revealed that there were no validation checks even for the critical fields. There are 151 cases of issue of national permits where the starting date of validity was prior to the date of issue. Likewise, there were 64 cases where expiry date of national permit was prior to the issue date.

6.2.10.3 Wrong registration numbers in the database

Invalid or incorrect registration number entered in the database would mean incorrect issue of registration certificate which can result in unlawful activities. On data analysis it was noticed that in the database of RTO, Mokokchung, there are 44 cases where motor vehicles were issued with registration number prefixed with "NL-00", which was incorrect prefix for registration numbers used in Nagaland.

6.2.10.4 Invalid registration dates

For issuing registration certificate for vehicles, the vehicle owners are to apply to the DTOs/RTOs in the prescribed form and along with the application fee and requisite taxes. On data analysis it was noticed that in DTO, Dimapur, there are 2,143 cases where the RC issue date was prior to the date of admission of application for registration which indicated the lack of validity controls in the software leading acceptance of wrong data.

The issue date denotes the date of registration of a vehicle, which is important to assess the life of a vehicle and also to determine when the first registration was issued. On data analysis of the database of RTOs, Mokochung and Kohima, it was noticed that issue date field contained invalid date such as year "100", "1100" etc. In many cases the issue date field was empty making the data unreliable.

6.2.10.5 Faulty data in driving licence module

Test check of the MS-access database of DTO, Dimapur revealed that the date of birth field contains year as “8970”, 8573”, “19”, 196 etc., which was due to lack of validation controls in the software.

It was also observed that invalid dates i.e., 11/11/111, 29/06/211 etc., were entered for the field meant for indicating the expiry date of the driving licence. In addition it was also noticed that there were some records where the data of expiry was prior to the date of application for driving licence.

6.2.10.6 Multiple engine number in the database

As per the Motor Vehicle Act, for registration of motor vehicles and issuing registration certificates, the motor vehicle inspector is to inspect the vehicle and certify that the engine number, chassis number and other information submitted along with the registration are correct and in order. On discussion with the DTO, it was stated that the data for issuing RC is entered into the computer after the motor vehicle inspector certifies the vehicle and is approved by the DTO for issue of registration certificate.

The main identification of a vehicle is its engine number and the chassis number. On data analysis in RTO, Kohima and Mokokchung, it was noticed that there are instances of same engine number appearing in records of vehicles having different registration marks. A total of 961 records were having duplicate/multiple engine number field. This situation was fraught with the risk of re-registration of stolen vehicles.

Further analysis of the database revealed that there were many cases where the engine numbers and chassis number fields were either blank or contain invalid data, such as – “12” “N”, “M” etc.

6.2.11 Issue of multiple registration certificates to same vehicle by more than one district registration authorities of the state

Section 47 of Motor Vehicles Act states assignment of “new registration mark” when a motor vehicle registered in one State has been kept in another State for a period exceeding 12 months.

On data analysis of database of RTO, Mokokchung, RTO Kohima, and DTO Dimapur, it was noticed that same chassis number and same engine number were registered in different RTOs.

A manual verification of some of the cases highlighted in data analysis confirmed that:

- Same vehicle registered in Kohima and Mokokchung : 665 records
- Same vehicle registered in Kohima and Dimapur: 92 records
- Same vehicle registered in Mokokchung and Dimapur: 49 records

Audit observed that lack of inter-connectivity of district registration authorities coupled with weak management controls resulted in multiple registrations in contravention of rules.

6.2.12 Registration of stolen vehicles

There was no control mechanism in the department to inform all its offices in time regarding information on stolen vehicles received from other States which resulted in stolen vehicles getting registered in RTOs.

On analysis of the database of RTOs, Kohima and Mokokchung it was noticed that vehicle having registration No.CH01W2822 bearing engine No.12760 intimated (December 2007) as stolen by Chandigarh Police to RTO, Kohima was registered in RTO, Mokokchung bearing Registration No. NL-02/C2326 on 2 June 2006. It was not found on record that the RTO took any action to cancel the registration of this vehicle on receipt of the information from Chandigarh police.

6.2.13 Non-utilisation of database for detection of registration validity expired vehicles and tax overdue vehicles

The computerised functions of RTOs/DTOs included collection of tax and fees of motor vehicles through one of the modules of the vehicle registration system.

With the computerisation of the main function of the department, information pertaining to vehicle history, validity and periodical tax collection are available in the database. Sufficient reports and queries can be generated from the database to ascertain tax defaulters and vehicles that are plying without renewing registration certificates. However, data analysis showed that out of a total of 99,002⁶ vehicles registered as per the computerised database in the three test checked RTOs/DTOs, there were 47,809⁷ cases of vehicles with tax overdue since more than one year. Likewise, there were 7,233⁸ vehicles whose RC validity had since expired.

The department did not attempt to extract information from the database about defaulters and validity expired vehicles to promptly send demand notices or take appropriate action on vehicle owners to pay the arrears.

The Government accepted (November 2008) the facts. However, action taken on this account has not been intimated (November 2008).

6.2.14 Conclusion

While appreciating that the department started computerisation way back in 1993, it was observed that full objectives of computerisation are yet to be achieved. There were deficiencies in BOT arrangement and undue reliance on vendors which was not in interest of the department. Operations of the computerised systems were marred by weak access

⁶ RTO, Mokokchung (3,6982), DTO, Dimapur (10,505), RTO, Kohima (51,515).

⁷ RTO, Mokokchung (24,728), DTO, Dimapur (131), RTO, Kohima (22,950).

⁸ RTO, Mokokchung (807), DTO, Dimapur (1,547), RTO, Kohima (4,879).

controls and supervision leading to unauthorised deletion of data and short deposit of revenues in the Government account. The databases relating to national permits, registration and driving licenses were not wholly reliable because of presence of invalid data.

6.2.15 Recommendations

- a review of existing contract with private firms may be carried out to address all security aspects of the department;
- all key fields in the vehicle registration system, driving licence and issue of national permits are to be validated by providing sufficient validation controls;
- the manual process controls that support the computerised system needed to be strengthened to avoid registration of a vehicle bearing same chassis and engine numbers in any other District; and
- ensure provision to generate periodical cash receipts in the software and monitoring by the heads of offices and the department vis-à-vis the daily deposits into Government Account.

PARAGRAPHS

FINANCE DEPARTMENT

6.3 Loss of revenue

Execution of a supplementary agreement favouring the sole selling agent of state lottery resulted in loss of revenue of Rs. 3.15 crore

According to clause (xiv) of Rule 204 of General Financial Rules 2005, “the terms of a contract, including the scope and specification once entered into, should not be materially varied. Whenever material variation in any of the terms or conditions in a contract becomes unavoidable, the financial and other effects involved should be examined and recorded and specific approval of the authority competent to approve the revised financial and other commitments obtained, before varying the conditions”.

Scrutiny of the records of Director of State Lotteries in June 2007 revealed that the Government of Nagaland appointed (March 2004) M/s Martin Lottery Agencies Ltd., Coimbatore as the distributor of paper lotteries of the Government of Nagaland. As per Clause 19 of the agreement executed (March 2004) between the Government of Nagaland and M/s MLAL duly approved by the cabinet, the distributor agreed to pay “Minimum Return (MR)” of Rs. 700 per draw per day subject to a “Minimum Guaranteed Return (MGR)” of Rs. 3.25 crore per year. Subsequently, a “Supplementary Agreement” was executed (December 2004) between the Government and the “Sole Selling agent” (modified in December 2004) and as per Clause 3 the MR was reduced to Rs. 250 per draw per day subject to MGR of Rs. 3.25 crore per year without the approval of the

cabinet. Scrutiny also revealed that the MGR of Rs. 3.25 crore was fixed considering the rate of Rs. 700 per draw per day.

The distributor conducted 1,63,019⁹ draws during 2005-06 and 2006-07 against which the Government's share due was Rs. 11.41 crore¹⁰ as per the original agreement. However, records revealed that during 2005-06 and 2006-07, the Government received only an amount of Rs. 8.26 crore¹¹ due to the conditions incorporated vide Clause 3 of the supplementary agreement.

Thus, due to execution of supplementary agreement favouring the sole selling agent in violation of financial rules and without the approval of the Cabinet, the Government suffered a loss of Rs. 3.15 crore (Rs. 11.41 crore - Rs. 8.26 crore) during 2005-06 to 2006-07.

The Government in reply (September 2008) stated that the reduction of MGR from Rs. 3.25 crore to Rs. 2.75 crore was made with the approval of the Cabinet meeting held on 15 November 2007. The reply is not tenable as the Cabinet approved the reduction of the MGR only and also upheld that the rate of minimum revenue per draw/scheme shall be Rs. 700 without any relaxation even after achieving the MGR. Besides, the notification of the Cabinet approval was issued only on 19 November 2007 while the observation relates to 2005-06 and 2006-07.

6.4 Fraudulent use of declaration form

Failure of the department to detect misuse of invalid form 'C' by a dealer led to non-levy of tax of Rs. 16.44 lakh besides interest of Rs. 19.40 lakh

As per Nagaland Sales Tax Act, if there is reason to believe that any turnover has escaped assessment during any return period, the authority can assess/reassess the same within a period of eight years of the end of the aforesaid period. Further, if the Commissioner in the course of any proceeding is satisfied that any dealer has evaded in any way, the liability to pay tax, he may direct that such dealer shall, pay by way of penalty, a sum not exceeding three times of tax sought to be evaded, in addition to tax payable. Besides, interest at prescribed rate is also leviable.

Cross verification of the records of Assistant Commissioner of Taxes (ACT), Dimapur with those of Superintendent of Taxes, Unit-5, Guwahati (Assam) in May 2007 revealed that a Nagaland based dealer¹² dealing with electronic goods, imported electronic goods valued at Rs. 1.37 crore during the year 2002-03 from M/s Samsung India Electronic Limited (registered in Guwahati, Assam) by utilising a declaration form C. Further scrutiny, however, revealed that the said form had been declared invalid by the

⁹ 2005-06 = 1,07,674 draws & 2006-07 = 55,345 draws

¹⁰ 2005-06=Rs.7,53,71,800 (1,07,674 draws x Rs. 700 per draw) + 2006-07
= Rs. 3,87,41,500 (55,345 draws x Rs. 700 per draw) = Rs. 11.41 crore.

¹¹ (1) 2005-06: Rs. 4,78,43,500 (@ Rs. 700 per draw till meeting the MGR of Rs. 3.25 crore, i.e. for draws conducted upto 07.08.2005 and thereafter Rs. 250 per draw.
(2) 2006-07: Rs. 3,47,47,750 (@ Rs. 700 per draw till meeting the MGR of Rs. 3.25 crore, i.e. for draws conducted upto 21.12.2006 and thereafter Rs. 250 per draw.

¹² M/s Avineet, Dimapur.

Government of Nagaland in June 2001. The dealer, thus, imported goods fraudulently by utilising invalid declaration form and evaded tax of Rs. 16.44 lakh¹³. Besides, interest of Rs. 19.40 lakh upto April 2008 and maximum penalty of Rs. 49.32 lakh was also leviable.

The matter was reported to the department and the Government in May 2008; their replies have not been received (September 2008).

EXCISE DEPARTMENT

6.5 Short levy of excise duty

Non-application of revised rates of excise duty resulted in short levy of excise duty of Rs. 8.48 lakh

The Government of Nagaland, Department of Excise revised (23 May 2007) the excise duty and export fee on sale of liquor to the military units by the Canteen Stores Department (CSD) with immediate effect.

Test check (September 2007) of records of the Commissioner of Excise, Dimapur revealed that the department had realised excise duty from CSD, Dimapur on sales made during the period from 23 May 2007 to June 2007, at rates other than the revised rates, resulting in short levy of duty Rs. 8.48 lakh.

In reply, the Government and the department stated (July 2008) that the effective date was deferred to July 2007 to allow time to the military units for arranging additional funds. However, the fact remains that the effective date was changed without the approval of the Cabinet.

¹³ Calculated at 12 *per cent* on purchased value of Rs. 1.37 crore of electronic goods *i.e.*, television, washing machines, refrigerators and air conditioning etc., during 2002-03.