Press Brief

The Report of the Comptroller and Auditor General of India for the period year ended March 2022 – Government of Himachal Pradesh [Report No. 02 of 2025 (COMPOSITE AUDIT REPORT-I)] has been prepared in accordance with the provisions of Article 151 of the Constitution of India. The Report was forwarded to the Government of Himachal Pradesh on 28 August 2025. The Report has been laid on the table of the Himachal Pradesh Vidhan Sabha on _____.

This Report covers matters arising out of the Information System Audit and Compliance Audit of the Departments of Finance, Planning, State Taxes and Excise and Revenue of the State Government and contains one Information System Audit, one Subject Specific Compliance Audit and 11 individual compliance audit observations.

Key findings:

Information System Audit on Integrated Financial Management System (IFMS)

The Integrated Financial Management System (IFMS) has been implemented to improve financial management, overcome vulnerabilities in manual processing of financial transactions and enhance accountability in the financial operations of the State Government.

Audit examined major modules of IFMS web-based application viz., e-Budget, e-Vitran, e-Bills, e-Salary, HP OLTIS, e-Challan – through front-end access and testing of system functionalities and controls. This was followed by test-check of records in four District-level Treasuries of the State i.e., District Treasury Office (DTO) Shimla, Shimla Capital, Kullu and Bilaspur and Sub-Treasuries, covering the period 2017-22 which revealed the following deficiencies:

From a project governance perspective, the absence of a Service Level Agreement (SLA) with the National Informatics Centre (NIC) weakened institutional control. Changes were made directly in the production environment without user acceptance testing.

IFMS was implemented by integrating pre-existing modules pertaining to pension, treasury processing, salary and budget distribution, without strengthening process controls. For instance, absence of electronic sanction orders without reference data impacted the completeness of voucher information recorded in IFMS. Financial processes such as AC/DC bill tracking were executed manually due to lack of necessary functionality. This resulted in instances (152 cases) where DC Bill amount was higher than the AC Bill amount.

Multiple application control weaknesses were observed. Bills could be prepared without approval by the DDO, and in many cases, were processed after the expiry of DDO validity, violating financial rules. For instance, 10,938 bills amounting to ₹ 2,467 crore were passed between April 2017 and March 2022 by 90 DDOs after the expiry of DDO validity date. The basic maker-checker principle of having at least two individuals to complete a transaction was violated across modules, including e-Bills, e-Vitran, and Cyber Treasury, with single users operating under HOD credentials to perform all steps

from allocation to verification. Audit noticed that in 106 Treasuries and Sub-Treasuries, the same Treasury employee completed token number allotment, compilation, checking, and passing of bills in 9,58,957 bills.

Master data governance was poor, with duplication of entries and incomplete records. Out of 1,88,282 employees recorded in the IFMS database, PAN was not available for 36,212 employees, making it difficult to establish if TDS was deducted from employees' salaries. Data analysis showed 439 DDOs having been linked to multiple Treasuries ranging from two to 105 Treasuries/Sub-Treasuries, violating the provisions of HPTR 2017. This apart, 1,81,632 pensioners existed in the pension module of IFMS (June 2023), however 1,85,512 Aadhaar numbers had been updated in e-Pension portal, suggesting unreliable data. Modules having public interface such as e-Challan did not restrict access to appropriate Heads of Account, risking incorrect challan deposits.

The system allowed multiple and unauthorised payments (including leave encashment, DCRG and commutation) across treasuries and DDOs for the same beneficiaries, often without recording the reason for such payments. Test check of records revealed that leave encashment payments for the same amount were processed and passed through IFMS database twice in 14 cases, resulting in unauthorised payment of ₹ 67.33 lakh. Excess payment of ₹ 180.05 lakh was cumulatively credited in the bank accounts of 32 claimants by drawing multiple bills in excess of the prescribed limit of 10.00 lakhs for DCRG. In District Treasury Kangra ₹ 68.11 lakh was misappropriated between March 2017 and July 2017 by a computer operator by generating 19 bills without original authorities. Out of the total amount, ₹ 29.62 lakh still remained to be recovered. Further, in respect of 15 cases of five Treasuries, the same amount of commutation was released twice against the same PPOs between March 2017 and February 2021, resulting in an unauthorised payment of ₹ 77.81 lakh to pensioners.

Incomplete employee master data, including missing family details and inconsistent date validations, necessitated continued manual handling of various critical processes and pension disbursements. Out of 23,391 family pensioners, in case of 10,599 family pensioners (PPOs), different date of birth was mentioned against same name and PPO number indicating that the system could not restrict double entries with different DoB against the same family pensioner. Analysis of database of the e-Pension module showed that in 1,204 cases, the date of initiation of the family pension was prior to the date of death of the deceased employee/pensioner.

System security and continuity planning were deficient. The use of Digital Signature Certificates and Multi-Factor Authentication was not made mandatory, and role-based access was not adequately enforced. Manual overrides induced vulnerabilities in data integrity. For instance, in respect of salaries, the bill date should precede the token date which in-turn should be before the passing date. However, test check showed in 356 cases that passing date was recorded before token date, affecting system reliability. Access controls did not prevent users from accessing modules or data outside their roles. The Department of Treasuries, Accounts and Lotteries had neither conducted post-change security audits of critical applications nor verified the reliability of backups by testing restoration. Institutional mechanisms like the Information Security Steering

Committee (ISSC) and Security Incident Response Team (SIRT) had not been constituted, and the absence of transaction logs meant unauthorised access could not be traced or investigated.

There was no Business Continuity Plan or Disaster Recovery Plan, nor a formal Data Retention Policy to guide data classification, retention duration, and risk-based archival, leaving critical financial transactions vulnerable to disruption and data loss.

These deficiencies need to be addressed on top priority to ensure confidentiality, integrity and availability of data, failing which instances of embezzlement and unauthorised payment/withdrawal of funds cannot be ruled out.

In conclusion, the IFMS in Himachal Pradesh suffers from design flaws, weak enforcement of internal controls, fragmented system integration, and gaps in information security, business continuity, and fiscal governance. These shortcomings undermine the system's credibility as a reliable and accountable platform for public financial management.

State Taxes and Excise Department

The Subject Specific Compliance Audit (SSCA) on Departmental Oversight on Goods and Service Tax (GST) Payments and Return Filing was undertaken in the context of varying trends of return filing and continued data inconsistencies with an objective of assessing the adequacy of the system in monitoring return filing and tax payments, extent of compliance and other departmental oversight functions.

This SSCA was predominantly based on data analysis, which highlighted risk areas, red flags and in some cases, rule-based deviations and logical inconsistencies in GST returns filed for the period between July 2017 and March 2018. The SSCA entailed assessing the oversight functions of State Jurisdictional formation at two levels – at the data level through global data queries and at the functional level with a deeper detailed audit of the Circles and of the GST returns. The audit sample selected 336 taxpayers for limited audit and 55 taxpayers for detailed audit of GST returns for the year 2017-18.

The Department had not issued any Standard Operating Procedure (SOP) for scrutiny of returns. The Department was only pursuing GST returns related inconsistencies identified by Economic Intelligence Unit (EIU). A review of the 10 Circles for the period from July 2017 to March 2021 disclosed that documentation of essential oversight functions of Circles such as monitoring of return filing, taxpayer compliance was poor and not amenable to evaluation. As such, the functions of the Circles were neither fully digitised nor carried out in an organised manner.

The Department responded to 315 out of 336 cases of high value data inconsistencies identified by Audit. Of these, 202 cases constituting 64.12 *per cent*, turned out to be compliance deficiencies with mismatches (including of turnover) amounting to ₹ 484.14 crore. A relatively higher rate of deficiencies was noticed in short/ non-payment of interest, Input Tax Credit (ITC) mismatch, excess Reverse Charge Mechanism (RCM) ITC availed and incorrect turnover declarations. While data entry errors caused the inconsistencies in 12 *per cent* of the cases, in five *per cent* of the cases the Department had already taken proactive action. The Department has not responded to 21 cases of inconsistencies, which has an identified risk exposure of ₹ 211.14 crore.

Detailed audit of GST returns also suggested significant non-compliance. At the outset, essential records such as financial statements and invoices were not produced in 23 cases out of a sample of 55 taxpayers and in another 32 cases, partial records were produced, which constituted a significant scope limitation. Out of the 55 cases that were audited either fully or partially due to non/ partial production of records, Audit observed 15 compliance deficiencies with a revenue implication of ₹ 106.56 crore. The main causative factors were availing of ineligible and irregular ITC, exclusion of supplies for taxation and incorrect discharge of tax under RCM.

Loss of Revenue of ₹ 6.29 crore due to excess deferment of tax liability

The assessing authorities allowed the deferment of 35 *per cent* of tax liability before adjustment of Input Tax Credit in three test checked office of Deputy Commissioners of State Taxes and Excise (DCSTE) resulting in excess deferment of tax liability of ₹ 6.29 crore.

Loss of revenue of ₹ 1.76 crore in the form of interest due to excess allowance of Input Tax Credit (ITC)

Assessing Authorities did not properly take into account, unsold local purchases in closing stock at the end of the tax period, leading to excess allowance of ITC of ₹ 10.05 crore to 114 dealers resulting in deferment of Government revenue of ₹ 10.05 crore for one year and loss of interest of ₹ 1.76 crore.

Suspected pilferage of Liquor

Mismatch between the quantity sold by the wholesaler and lifted by the retailers resulted in suspected pilferage of 1.26 lakh proof litres of Indian Made Foreign Liquor, 1.38 lakh proof litres of Country Liquor and 1.16 lakh bulk litres of Beer involving license fee of ₹ 9.71 crore.

Loss of revenue due to non-allotment of Minimum Guaranteed Quota (MGQ) of liquor

Non-allotment of MGQ of liquor as per Excise Announcement 2020-21 by the Excise Authority led to less determination of quota for liquor (0.99 lakh proof litres for Country Liquor and 0.56 lakh proof litres for Indian Made Foreign Liquor) which resulted in loss of revenue involving License fee of ₹ 5.22 crore.

Revenue Department

Short determination of market value of properties

Incorrect valuation of properties by Sub-Registrars on the basis of incorrect Circle Rates and doubtful affidavits regarding distance of the land from road resulted in short realisation of Stamp Duty and Registration Fee of ₹ 5.37 crore.

Planning Department

Aspirational Block Development Programme in Himachal Pradesh

The issue of non-convening of regular meetings of District Planning, Development and 20 point Programme Review Committee (DPDC) and parking of funds was highlighted in the Comptroller and Auditor General's Audit Report (Civil and Commercial) for the year ended March 2005. During discussion (March 2015) in the PAC, the Department assured that the meetings would continue to be organized as per recommendations.

However, the irregularity persisted during the period of current audit as DPDC convened only two meetings between 2018-19 and 2021-22, against the expected 48 meetings.

Financial management was weak as there were instances of irregular re-appropriation of funds and a rush of expenditure in the last quarter of Financial Years. The booked expenditure reflected merely the amount released to the executing agencies during 2018-22, as the audit analysis revealed that the unutilised funds amounting to ₹ 12.22 crore remained with six test checked BDOs at the end of 2021-22. The Scheme Monitoring Information System was not updated and timeline of execution of schemes/works was not ascertainable from it. Works sanctioned prior to April 2018 remained incomplete despite lapse of more than four years as of September 2022. There were instances of non-utilisation of created infrastructure. In Sirmaur, Utilisation Certificates amounting to ₹ 2.88 crore in respect of works completed during 2018-22 were awaited as of October 2022. As per instructions issued (October 1999 and October 2018) by Advisor (Planning), Credit Planning Officer (CPO) will maintain accounts at District and Block level and conduct internal audit of funds allocated under Planning head schemes. Audit, however, noticed that the internal audit in the test-checked districts had not been conducted by the CPOs.

Irregular diversion and mis-utilisation of State Disaster Response Fund (SDRF) for inadmissible works

State Executive Committee (SEC) did not ensure proper utilisation of money from SDRF, resulting in irregular diversion and mis-utilisation of ₹ 22.61 crore by Deputy Commissioners on inadmissible works of repair and restoration on works, not necessitated or damaged due to disaster/calamity.

Mention of irregular diversion and mis-utilisation of money from the SDRF had been made in previous CAG's Reports and the Public Accounts Committee in its recommendations (December 2019) had directed to release the funds strictly as per guidelines/norms of the SDRF. However, the District authorities did not take any corrective action to adhere to the guidelines/ PAC recommendations.

The following recommendations were made:

The Department may:

A. For IFMS:

- *Adopt a systematic approach for management of IFMS. Complete documentation may be maintained with help of SDA (NIC).*
- *Facilitate end to end processing from Budget preparation to bill processing in IFMS with minimal human intervention and ensure that all types of bills are processed through the IFMS.*
- *Ensure segregation of duties and roles of the authorised personnel in each module.*
- *Establish a robust Data Recovery and Data Back-up plan in the form of a Disaster Recovery Plan/ Business Continuity Plan*

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B. For Goods and Service Tax (GST) Payments and Return Filing:

- *Take prompt action against the late/ non-filers of returns.*
- *Initiate and expedite the scrutiny of the returns as per the norms fixed by the Department.*
- *Urgently pursue the inconsistencies/deviations pointed out by Audit and initiate remedial action.*