

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Bihar during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States 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
1.	Revenue raised by the State Government					
	• Tax revenue	3,561.10	4,033.08	5,085.53	6,172.74	8,089.67
	• Non-tax revenue	522.30	511.28	525.59	1,153.32	1,670.42
	Total	4,083.40	4,544.36	5,611.12	7,326.06	9,760.09
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	10,420.59	13,291.72	16,766.29	17,692.51	18,202.58
	• Grants-in-aid	3,332.72	5,247.11	5,831.67	7,962.12	7,564.16
	Total	13,753.31	18,538.83	22,597.96	25,654.63	25,766.74
3.	Total revenue receipts of the State Government¹ (1 and 2)	17,836.71	23,083.19	28,209.08	32,980.69	35,526.83
4.	Percentage of 1 to 3	23	20	20	22	27

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 9,760.09 crore) was 27 per cent of the total revenue receipts against 22 per cent in the preceding year. The balance 73 per cent of receipts during 2009-10 was from the Government of India. Though the total

¹ For details, please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of Government for the year 2009-10. Figures under the major heads 0020 - Corporation tax, 0021 - Taxes on income other than corporation tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - Minor Head - 901 - Share of net proceeds assigned to the State booked in the Finance Accounts under A - Tax revenue have been excluded from the revenue raised by the State and included in State's share of divisible union taxes in this statement.

revenue receipts of the State increased in 2009-10 compared to 2008-09 from ₹ 32,980.69 crore to ₹ 35,526.83 crore, the grants-in-aid received from the Government of India decreased by ₹ 397.96 crore in 2009-10. The overall increase of 33.22 *per cent* in revenue raised by the State Government (₹9,760.09 crore) during 2009-10 as compared to ₹ 7,326.06 crore during 2008-09 was mainly due to a 31.05 *per cent* increase in tax revenue and a 44.84 *per cent* increase in non-tax revenue as detailed in paragraphs 1.1.2 and 1.1.3. The trend of increase of revenue raised by the State is required to be maintained in subsequent years.

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	Percentage of increase (+)/decrease (-) in 2009-10 over 2008-09
1.	Taxes/VAT on sales, trade etc.	1,733.60	2,081.49	2,534.80	3,016.47	3,839.29	(+) 27.28
2.	State excise	318.59	381.93	525.42	679.14	1,081.68	(+) 59.27
3.	Stamp duty and registration fees						
	Stamps-judicial					53.81	
	Stamps – non-judicial	505.29	455.02	654.15	716.19	708.62	(+) 39.33
	Registration fees					235.47	
4.	Taxes and duties on electricity	18.06	62.84	64.05	67.62	66.63	(-) 1.46
5.	Taxes on vehicles	302.44	181.38	273.21	297.74	345.13	(+) 15.92
6.	Taxes on goods and passengers - tax on entry of goods into local areas	613.38	783.01	937.87	1,279.41	1,613.16	(+) 26.09
7.	Land revenue	55.02	74.65	82.10	101.74	123.96	(+) 21.84
8.	Other taxes and duties on commodities and services	14.72	12.76	13.93	14.43	21.92	(+) 51.91
	Total	3,561.10	4,033.08	5,085.53	6,172.74	8,089.67	(+) 31.05

The Departments concerned reported the following reasons for variation in collection of tax revenue in 2009-10 as compared to the year 2008-09:

State Excise: The increase (59.27 *per cent*) was due to increase in the number of retail excise shops settled under the new excise policy.

Stamp duty and registration fees: The increase (39.33 *per cent*) was due to the revision of the minimum value register of the urban areas of the State with effect from April 2009.

The other Departments did not inform (December 2010) the reasons for variation, despite being requested (between May and August 2010).

1.1.3 The following table presents the details of 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	Percentage of increase (+) / decrease (-) in 2009-10 over 2008-09
	Interest receipts	216.07	175.99	170.71	304.57	353.27	(+) 15.99
2.	Forestry and wildlife	8.89	6.35	6.64	6.15	6.78	(+) 10.24
3.	Non-ferrous mining and metallurgical industries	100.90	127.65	178.66	245.00	319.93	(+) 30.58
4.	Miscellaneous general services	11.77	20.88	3.02	385.82	770.28	(+) 99.65
5.	Major and Medium irrigation	10.82	10.95	9.67	10.64	14.80	(+) 39.10
6.	Medical and public health	15.10	17.52	21.07	17.25	14.08	(-) 18.38
7.	Fisheries	5.69	6.09	6.57	6.87	7.87	(+) 14.56
8.	Roads and bridges	12.05	16.75	17.95	26.40	30.02	(+) 13.71
9.	Police	6.00	10.53	23.47	9.44	11.89	(+) 25.95
10.	Other administrative services	34.21	20.28	12.00	8.09	9.42	(+) 16.44
11.	Other non-tax receipts	100.80	98.29	75.83	133.09	132.08	(-) 0.76
	Total	522.30	511.28	525.59	1,153.32	1,670.42	(+) 44.84

The reason for increase (30.58 *per cent*) under 'Non-ferrous mining and metallurgical industries' as reported by the concerned Department was due to increase in the auction amount of sand *ghats*.

The other Departments did not inform (December 2010) the reasons for variation, despite being requested (between May and August 2010).

1.2 Response of the Departments/Government towards audit

1.2.1 Inaction on the part of senior officials to enforce accountability and protect the interest of the State Government

The PAG (Audit) Bihar 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 PAG 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.

A review of inspection reports issued upto December 2009 disclosed that 21,968 paragraphs involving ₹ 7,876.02 crore relating to 4,150 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years:

	June 2008	June 2009	June 2010
Number of outstanding IRs	3,564	3,855	4,150
Number of outstanding paragraphs	18,997	20,552	21,968
Amount involved (₹ in crore)	4,358.62	5,009.24	7,876.02

The Department-wise details of the IRs and paragraphs outstanding as on 30 June 2010 and the amounts involved are mentioned in the following table:

Sl. no.	Name of the Departments	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance (Commercial taxes)	Taxes/VAT on sales, trade etc	540	5,315	2,571.82
		Entry tax	143	288	116.70
		Electricity duty	21	25	16.74
		Entertainments tax, luxury tax, etc.	13	19	0.54
2.	Excise	State excise	376	1,948	805.13
3.	Revenue	Land revenue	1,505	6,518	773.55
4.	Transport	Taxes on motor vehicles	427	3,142	1,230.58
5.	Registration	Stamps and registration fees	414	1,152	183.79
6.	Mines and geology	Non-ferrous mining and metallurgical industries	298	1,938	850.57
7.	Environment and forest	Forestry and wild life	140	548	593.73
8.	Water resources	Water rates	217	941	689.51
9.	Cane	Sugar cane	56	134	43.36
Total			4,150	21,968	7,876.02

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 1,577 IRs issued upto December 2009. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

We recommend that the Government take suitable steps to install an effective procedure for prompt and appropriate response to audit paragraphs as well as initiate action against officials/officers who do not send replies to the IRs/paragraphs as per the prescribed time schedules and who 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 in the following table:

(₹ in crore)

Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
Taxes on sales, trade etc./VAT	5	311	13.90
Land revenue	3	89	4.11
Total	8	400	18.01

As against 5,315 outstanding paragraphs with revenue impact of ₹ 2,571.82 crore in respect of taxes on sales, trade etc./VAT, only 311 paragraphs involving ₹ 13.90 crore (0.54 per cent) and in land revenue only 89 paragraphs involving ₹ 4.11 crore (0.53 per cent) against 6,518 outstanding paragraphs involving ₹ 773.55 crore could be settled through Departmental audit committee meetings. No such meetings could be held for the State excise and Transport Departments during the year 2009-10 despite being requested.

The Government may take suitable steps to hold regular Departmental audit committee meetings for the settlement of outstanding IRs/paragraphs.

1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of various tax/revenue receipts offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the concerned Department to enable it to keep the relevant records ready for audit scrutiny.

During 2009-10, 186 tax assessment records/other records relating to 41 offices pertaining to eight revenue heads were not made available to audit. In none of these cases the revenue involved could be ascertained. Year wise breakup of these cases is given in **Annexure-I**.

1.2.4 Response of the Departments to the draft audit paragraphs

The Department of Finance issued directions (August 1967) 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. The PAG forwards the draft paragraphs to the Secretaries of the concerned Departments through demi-official letters drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments is invariably indicated at the end of each paragraph included in the Audit Report.

Twenty four draft paragraphs and two reviews included in this Report for the year ended 31 March 2010 were forwarded to the Secretaries of the concerned Departments between May and September 2010 through demi-official letters. The Secretaries of the various Departments sent replies to the two reviews, 12 draft paragraphs and partial replies to five draft paragraphs while replies to seven draft paragraphs have not been received. These have been included in this Report without the response of the Government/Departments.

1.2.5 Follow-up on Audit Reports

The Departments of the Government are required to prepare detailed explanations (Departmental notes) on the audit paragraphs and send it to the Public Accounts Committee within three months of an Audit Report being presented to the State Legislature.

We reviewed the position and found that as of October 2010, 12 Departments had not furnished the Departmental notes in respect of 161 paragraphs included in the Audit Reports for the years between 1990-91 and 2008-09 for vetting. The delay ranged from one month to over 16 years as mentioned below:

Sl. no.	Department	Year of Audit Report	Dates of presentation to the Legislature	Last date by which Departmental notes were due	Number of paragraphs for which Departmental notes were due	Delay in months
1.	Finance	2003-04 to 2004-05	December 2005 to March 2006	March 2006 to June 2006	2	52 to 55
2.	Finance (Commercial taxes)	1993-94, 2000-01 to 2008-09	December 1995, December 2003 to July 2010	March 1996, March 2004 to October 2010	22	1 to 175
3.	State excise	1990-91 to 2008-09	March 1994 to July 2010	June 1994 to October 2010	48	1 to 196
4.	Revenue and land reforms	2005-06 to 2008-09	July 2007 to July 2010	October 2007 to October 2010	22	1 to 36

5.	Registration	1996-97, 2000-01, 2002-03 to 2006-07, 2008-09	July 1998, December 2003, December 2004 to March 2008, July 2010	October 1998, March 2004, March 2005 to June 2008, October 2010	9	1 to 144
6.	Transport	1996-97, 1998-99, 2000-01 to 2008-09	July 1998, July 2000, December 2003 to July 2010	October 1998, October 2000, March 2004 to October 2010	5	1 to 144
7.	Mines and geology	2000-01 to 2008-09	December 2003 to July 2010	March 2004 to October 2010	24	1 to 79
8.	Forest and environment	2000-01 to 2007-08	December 2003 to July 2009	March 2004 to October 2009	9	12 to 79
9.	Water resources	1994-95 to 1998-99, 2000-01, 2002-03 to 2008-09	July 1996 to July 2000, December 2003, December 2004 to July 2010	October 1996 to October 2000, March 2004, March 2005 to October 2010	15	1 to 168
10.	Home (Police)	1998-99 and 2005-06	July 2000 and July 2007	October 2001 and October 2007	2	36 to 120
11.	Urban development	1997-98	August 1999	November 1999	1	131
12.	Agriculture	2005-06	July 2007	October 2007	2	36
Total					161	

The delay in submission of Departmental notes is indicative of the fact that the heads of the offices/Departments did not take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue, the recovery of some of which could be barred by limitation now.

1.2.6 Compliance with the earlier Audit Reports

During the years between 2004-05 and 2008-09, the Departments/Government accepted audit observations involving ₹ 1,253.37 crore of which an amount of ₹ 4.25 crore only was recovered as on 31 March 2010 as mentioned below:

(₹ in crore)			
Year of Audit Report	Amount involved in the Audit Report	Amount accepted	Amount recovered
2004-05	176.92	56.63	0.67
2005-06	304.68	8.07	1.26
2006-07	206.42	61.40	0.82
2007-08	523.80	417.49	1.48
2008-09	838.92	709.78	0.02
Total	2,050.74	1,253.37	4.25

The concerned Departments did not inform (December 2010) the up-to-date position of recovery, despite being requested (between May and August 2010).

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 Inspection Reports/Audit Reports in respect of **Mines and Geology Department** was evaluated. The succeeding paragraphs 1.3.1 and 1.3.2 discuss the performance of the Department to deal with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Reports for the years 1999-2000 to 2008-09.

1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on November 2010 are tabulated below:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value	IRs	Para graphs	Money value
1999-2000	282	1,671	23.25	7	40	174.26	15	80	49.61	274	1,631	147.90
2000-01	274	1,631	147.90	10	52	14.58	-	-	-	284	1,683	162.48
2001-02	284	1,683	162.48	15	66	32.63	-	157	88.00	299	1,592	107.11
2002-03	299	1,592	107.11	17	113	21.22	-	26	0.04	316	1,679	128.29
2003-04	316	1,679	128.29	17	93	87.54	-	-	-	333	1,772	215.83
2004-05	333	1,772	215.83	20	125	99.46	-	-	-	353	1,897	315.29
2005-06	353	1,897	315.29	16	80	36.20	-	-	-	369	1,977	351.49
2006-07	369	1,977	351.49	7	93	99.33	212	894	14.88	164	1,176	435.94
2007-08	164	1,176	435.94	34	77	51.48	-	3	0.003	198	1,250	487.42
2008-09	198	1,250	487.42	51	220	93.47	3	10	1.66	246	1,460	579.23

In view of heavy accumulation of pending IRs/paragraphs, the responsibility of disposal of pending IRs and paragraphs upto the year 1995-96 was left to the Department (August 2006) except in cases of outstanding draft paragraphs, reviews, cases pending in courts and cases of defalcation in which the final decision rests with the Public Accounts Committee/Hon'ble Courts.

1.3.2 Assurance given by the Department/Government on the issues highlighted in the Audit Report

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years and those accepted by the Department are mentioned below:

(₹ in crore)

Year of AR	Number of paragraphs included in AR	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs
1999-2000	3	127.98	1 (Partially)	0.21
2000-01	2	9.57	Nil	Nil
2001-02	3	10.83	Nil	Nil
2002-03	5	21.16	2	5.40
2003-04	3	9.44	2	9.36
2004-05	2	2.69	Nil	Nil
2005-06	2	6.51	1	2.04
2006-07	1	38.32	1 (Partially)	26.21
2007-08	4	2.38	2	0.46
2008-09	2	2.00	2 (Partially)	1.31
Total	27	230.88	11	44.99

The above table shows that out of ₹ 230.88 crore involved in 27 paragraphs included in the Audit Reports for the years 1999-2000 to 2008-09, the Government/Department accepted ₹ 44.99 crore involved in 11 paragraphs against which no recovery could be effected.

The Government/Department may take effective steps for recovery of Government revenue.

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

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

Two reviews containing nine recommendations were featured in the Audit Reports 2001-02 and 2006-07 on receipts of Mines and Geology Department. We are yet to receive any reply regarding acceptance of the recommendations and action taken thereon (December 2010).

Year of AR	Name of the review	Number of recommendations	Details of the recommendations accepted	Status
2001-02	Mineral Receipts	4	Reply of the Government/Department awaited	-
2006-07	Receipts from mines and minerals	5	Reply of the Government/Department awaited	-

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* includes critical issues in Government revenues and tax administration *i.e.* budget speech, White Paper on State finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings 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 1,012 auditable units, of which we planned and audited 271 units during the year 2009-10 which was 26.78 *per cent* of the total auditable units. The details are shown in **Annexure-II**.

Besides the compliance audit mentioned above, we also conducted two performance reviews 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

We conducted test check of the records of 271 units of commercial taxes, State excise, motor vehicles, forest and other Departmental offices during the year 2009-10 and observed underassessment/short levy/loss of revenue of ₹ 2,399.68 crore in 2,092 cases. During the course of the year, the Departments concerned accepted underassessment and other deficiencies of ₹ 1,784.41 crore involved in 1,892 cases of which 1,774 cases involving ₹ 1,732.70 crore were pointed out in audit during 2009-10 and the rest in the earlier years. The Departments collected ₹ 0.67 crore in 119 cases during 2009-10.

1.5.2 This Report

This report contains 24 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in the earlier reports) and two performance reviews on 'Levy and collection of State excise revenue' and 'Levy and collection of stamp duty

and registration fee' relating to short/non-levy of tax, duty and interest, penalty *etc.* involving financial effect of ₹ 977.82 crore. The Departments/Government have accepted audit observations involving ₹ 96.16 crore out of which ₹4.49 lakh has been recovered. The replies in the remaining cases have not been received (December 2010). These paragraphs/reviews are discussed in the succeeding chapters II to VI.