

**CHAPTER I  
GENERAL**

**1.1 Trend of revenue receipts**

**1.1.1** The tax and non-tax revenue raised by the Government of National Capital Territory (NCT) of Delhi during the year 2009-10, 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.	<b>Revenue raised by the State Government</b>					
	•Tax revenue	8,939.28	10,155.80	11,782.80	12,180.70	13,447.85
	•Non-tax revenue	1,398.96	1,463.58	1,816.70	2,300.72	3,467.40
	<b>Total</b>	<b>10,338.24</b>	<b>11,619.38</b>	<b>13,599.50</b>	<b>14,481.42</b>	<b>16,915.25</b>
2.	<b>Receipts from the Government of India</b>					
	•Grants-in-aid	505.29	574.23	1,312.88	1,870.79	3,536.08
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>10,843.53</b>	<b>12,193.61</b>	<b>14,912.38</b>	<b>16,352.21</b>	<b>20,451.33</b>
4.	<b>Percentage of 1 to 3</b>	<b>95</b>	<b>95</b>	<b>91</b>	<b>89</b>	<b>83</b>

The above table indicates that during the year 2009-10, the revenue raised by the State Government was 83 *per cent* of the total revenue receipts (₹ 20,451.33 crore) against 89 *per cent* in the preceding year. The balance 17 *per cent* of receipts during 2009-10 was from the Government of India.

1.1.2 The following table presents the details of tax revenue raised during the period from 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 on sales, trade, etc.	6,500.56	7,365.79	8,310.49	9,152.09	10,126.01	(+) 10.64
2.	State excise	1,024.80	1,133.19	1,301.25	1,420.91	1,643.56	(+) 15.67
3.	Stamp duty and registration fee	827.65	917.97	1,318.40	788.01	929.97	(+) 18.01
4.	Taxes on vehicles	298.74	362.84	420.20	419.12	462.65	(+) 10.39
5.	Other taxes	287.53	376.01	432.46	400.57	285.66	(-) 28.69
<b>Total</b>		<b>8,939.28</b>	<b>10,155.80</b>	<b>11,782.80</b>	<b>12,180.70</b>	<b>13,447.85</b>	<b>(+) 10.40</b>

The concerned departments reported the following reasons for increase/decrease in receipts during 2009-10 over those of 2008-09.

**Taxes on sales, trade etc.:** The increase was stated to be due to increased number of dealers getting registered with the department, increased emphasis on scrutiny of returns, enhancing the rate of tax and increased efforts by the border authority wing.

**State excise:** The increase was stated to be due to increase in duty on IFL, opening of new L-2 Vends in the un-served areas and proactive measures like introduction of holograms.

**Stamp duty and registration fee:** The increase was stated to be due to slight increase in sale and purchase of immovable property.

**Taxes on vehicles:** The increase was stated to be due to higher registration of new vehicles than that of the year 2008-09.

**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
1.	Forestry & Wildlife	0.14	0.04	0.05	0.08	0.07	(-) 12.5
2.	Interest Receipt	1,254.17	1,284.98	1,634.79	2,101.41	3,236.61	(+) 54.02
3.	Mining Receipt	0.09	0.05	0.06	0.10	0.10	-
4.	Public Works	6.45	9.71	11.95	9.23	14.99	(+) 62.40
5.	Medical & Public Health	13.93	15.18	16.87	18.75	24.65	(+) 31.47
6.	Education, Sports, Art & Culture	11.39	9.27	12.52	22.97	22.26	(-) 3.09
7.	Crop Husbandry	0.42	0.40	0.35	0.40	0.16	(-) 60.00
8.	Animal Husbandry	0.39	0.39	0.47	0.36	0.42	(+) 16.67
9.	Others*	111.98	143.56	139.64	147.42	168.14	(+) 14.06
<b>Total</b>		<b>1,398.96</b>	<b>1,463.58</b>	<b>1,816.70</b>	<b>2,300.72</b>	<b>3,467.40</b>	<b>(+) 50.71</b>

*Note: \*Others comprise mainly receipts from Dividends & Profits, Public Service Commission, Other Administrative Services, Power and Labour & Employment.*

The reasons for increase/decrease in receipts during 2009-10 over those of 2008-09 as given by the concerned departments are as under:

**Interest Receipts:** The increase was stated to be due to the excess recovery of interest during 2009-10 and sanctioning of loan to Delhi Jal Board by the Department of Urban Development.

**Public Works:** The increase was stated to be due to sale of tender documents of street scraping works and the earnest moneys of some contractors were forfeited and transferred to revenue head.

**Medical & Public Health:** The increase was stated to be due to receipt from Delhi Building & Other Construction Workers Welfare Board, Labour Department and dividend on shares of Government of NCT of Delhi which was deposited under the above receipt head.

**Crop Husbandry:** The decrease was stated to be due to discontinuation of the activity regarding purchase of various pesticides, fertilisers, seeds etc. for sale to the farmers through Block Development Officers and holding up of lifting of sludge from sewage disposal plant due to shortage of trucks.

**Animal Husbandry:** The increase was stated to be due to increase in number of meat exporters who came forward to get more meat samples tested.

## 1.2 Response of the Departments/Government towards Audit

### 1.2.1 Failure of senior officials to enforce accountability and protection of the interest of the State Government

The Accountant General (Audit), Delhi, (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.

Inspection reports issued up to December 2009 disclosed that 6002 paragraphs involving ₹ 3,920.65 crore relating to 341 IRs remained outstanding at the end of 30 June 2010 as mentioned, in the following table, along with the corresponding figures for the preceding two years.

	June 2008	June 2009	June 2010
Number of outstanding IRs	206	289	341
Number of outstanding audit observations	2645	4481	6002
Amount involved (₹ in crore)	1,758.51	3,093.36	3,920.65

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

(₹ in crore)					
Sl. No.	Names of Departments	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Finance	Taxes/VAT on sales, trade etc.	270	5799	3784.52
		Entertainments tax, luxury tax, etc.	5	23	1.01
2.	Excise	State excise	5	12	30.44
3.	Transport	Taxes on motor vehicles	20	20	1.34
4.	Stamps and registration	Stamps and registration fees	38	144	13.14
5.	Others		3	4	90.20
<b>Total</b>			<b>341</b>	<b>6002</b>	<b>3,920.65</b>

This large pendency of IRs due to non-receipt of the replies is indicative of the fact that the heads of Offices and heads of Departments had failed to initiate

action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

It is recommended that the Government takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to 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 in the following table:

(₹ in crore)			
Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
Sales tax	6	317	212.44
State excise	1	5	1.39
<b>Total</b>	<b>7</b>	<b>322</b>	<b>213.83</b>

The progress of settlement of paragraphs pertaining to Sales Tax and State Excise was negligible as compared to the huge pendency of the IRs and paragraphs, despite holding departmental audit committee meetings.

**It is recommended that the Government may fix targets for settlement of paragraphs in each meeting and approve suitable action for failure to achieve the targets.**

### 1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of Department of Trade & Taxes, Department of State Excise, Entertainment & Luxury Tax, Transport Department, Revenue Department and other receipts' offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit to the department to enable them to keep the relevant records ready for audit scrutiny.

During 2009-10, the tax assessment records relating to three offices involving 1373 cases were not made available to Audit. Of the 1373 cases, 1364 cases related to Department of Trade and Taxes out of which 252 assessment cases pertained to two special circles/wards where assessments of major dealers are dealt with. Year wise break-up of such offices, which did not provide records is given in the following table:

Name of Office	Year in which it was to be audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained
Sub-Registrar IVA	2007-08	2	-
Sub-Registrar IV	2008-09	7	-
Department of Trade & Taxes	2009-10	1364	-

The revenue involved in the above cases could not be ascertained, as the records were not made available to Audit for scrutiny.

#### **1.2.4 Response of the Departments to the draft audit paragraphs**

Draft paragraphs proposed for inclusion in the Audit Report are forwarded by the AG to the concerned Departments through demi-official letters. All the Departments are required to furnish their remarks within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Draft paragraphs clubbed into 18 paragraphs (including one review) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2010 were forwarded to the respective Departments and the Government in June and November 2010. The replies from the Department were received in parts in respect of all the paragraphs, which have been reflected in the report.

#### **1.2.5 Follow up on Audit Reports – summarised position**

Once the Reports of the Comptroller and Auditor General of India are placed in the State Legislative Assembly, the various Departments are required to submit action taken notes (ATNs) on all paragraphs contained therein for consideration of the Public Accounts Committee (PAC). Undue delay in submission of ATNs dilutes the accountability of the Executive to the Legislature and is to be viewed seriously. The position of outstanding ATNs on paragraphs and reviews included in the Report relating to revenue receipts of the Comptroller and Auditor General of India, Government of NCT of Delhi as of September 2010 is mentioned in the following table:

Sl. No.	Year of Report ending 31 March	Number of paragraphs and reviews printed in Report	Number of paragraphs for which ATNs were awaited
1.	1995	13	10
2.	1998	10	07
3.	2004	20+3 (Reviews)	3+1 (Review)
4.	2005	26+1 (Review)	1
5.	2006	19+1 (Review)	5+1 (Review)
6.	2009	13+2 (Reviews)	13+2 (Reviews)

Thus, ATNs have been pending for periods up to 16 years. The Government needs to view this seriously and take expeditious action.

### 1.2.6 Compliance with the earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2005-06 to 2008-09, the Department/Government accepted audit observations involving revenue of ₹ 364.67 crore of which only ₹ 65 lakh was recovered till October 2010 as mentioned in the following table:

Year of the Audit Report	Money value of Audit Reports	Money value of accepted cases	(₹ in crore)
			Amount recovered
2005-06	177.85	18.44	0.06
2006-07	254.93	209.06	0.27
2007-08	945.52	28.17	0.18
2008-09	1,729.62	109.00	0.14
<b>Total</b>	<b>3,107.92</b>	<b>364.67</b>	<b>0.65</b>

As against accepted money value of ₹ 364.67 crore, only ₹ 65 lakh (0.18 per cent) were recovered during the last four years. **Efforts may be made for early recovery of the accepted amount.**

### 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 seven years in respect of Department of Trade & Taxes is evaluated and included in each Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Department of Trade & Taxes to deal with the cases detected in the course of local audit conducted during the last seven years and also the cases included in the Audit Reports for the years 2003-04 to 2009-10.

#### 1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last seven years, paragraphs included in these reports and their status as on 31<sup>st</sup> March 2010 are tabulated in the following table:

Year	Opening balance			Additions 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
2003-04	1046	9472	750.88	99	1453	564.88	-	104	188.34	1145	10821	1,127.42
2004-05	1145	10821	1,127.42	93	1436	306.27	668	7468	404.91	570	4789	1,028.78
2005-06	570	4789	1,028.78	81	1377	399.89	227	1916	174.95	424	4250	1,253.72
2006-07	424	4250	1,253.72	64	880	320.51	265	2548	543.25	223	2582	1,030.98
2007-08	223	2582	1,030.98	62	1329	1,077.42	79	1266	349.89	206	2645	1,758.51
2008-09	206	2645	1,758.51	89	2265	1,748.24	6	429	413.39	289	4481	3,093.36
2009-10	289	4481	3,093.36	108	2972	2,900.71	11	301	218.47	386	7152	5,775.60

Audit Committee meetings are arranged between the Departments and this office and these committees settled the old paragraphs at the spot. It is evident from the given table that due to vigorous efforts, against 1145 IRs with 10821 outstanding paragraphs at the end of 2003-04, the number of outstanding IRs declined to 386 with 7152 paragraphs at the end of 2009-10.

### 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 in the following table:

(₹ in crore)

Year of Report ending 31 March	Number of paragraphs included	Money value of the paragraphs	Money value of accepted paragraphs*	Amount recovered during the year	Cumulative position of recovery of accepted cases
2004	23	410.05	-	12.86	12.86
2005	27	402.36	55.65	0.18	13.04
2006	20	177.85	11.52	0.11	13.15
2007	16	254.93	16.54	0.08	13.23
2008	11	945.52	70.75	0.14	13.37

Note: \*Due to partial acceptance of paragraphs by the departments, the exact number of paragraphs including money value could not be ascertained.

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

The draft performance reviews conducted by the AG 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.

The following reviews on the Department of Trade & Taxes, State Excise, Entertainment & Luxury Tax and Transport Department featured in the last five Audit Reports.

Year of IR	Name of the Review	Number of recommendations	Details of recommendations	Status
2004-05	Performance appraisal of levy of Sales Tax in respect of Inter State Sales	4	(i) A system needs to be devised and linkages established for periodic cross verification of the statutory forms on test basis;  (ii) as it may not be possible to detect each and every case of evasion or false declaration, it is necessary that an	The Department stated that statutory forms could be verified through TINXSYS system and the Empowered Committee Secretariat was considering strengthening the TINXSYS.  The Department stated that the provisions were already existing in the Act & Rules and circulars were issued from time to time but the department failed to provide



			<p>element of deterrence be introduced by way of strict and rigorous imposition of penalties on persistent defaulters;</p> <p>(iii) there should be no deviation from the rules and regulations governing inter state sales and assessing authorities should be held accountable for any deviations which may have either resulted in short collection of tax or raised a possibility of such short collection of tax; and</p> <p>(iv) the internal audit system in the department needs to be urgently strengthened. Given the fact that over 70% of the revenue of Govt. of Delhi is contributed by this department alone, the Directorate of Internal Audit should conduct an internal audit exercise in the sales tax department every year covering a certain number of wards/ circles in a rotational manner.</p>	<p>the details of defaulters from whom the penalties were imposed for evasion or false declaration.</p> <p>Action taken was not furnished by the Department</p> <p>The Department stated that in addition to internal audit, the VAT Audit, KCS and Special Zone were conducting the audit of the dealers. Special audit was also conducted by the CAs in complicated cases.</p> <p>The Department however, did not furnish the data in support of its claim.</p>
2005-06	Assessment, levy & collection of entertainment, betting & luxury tax	3	<p>(i) There was a need to strengthen the mechanism to monitor adherence to statutory provisions. Maintenance of records and quality of documentation also needed to be improved and internal audit conducted at least on an annual basis;</p> <p>(ii) the Department should institute procedures to cross check at least on a representative test check basis the validity and correctness of the returns submitted by the assesses so as to secure their</p>	<p>The Department accepted the recommendations and stated that it had issued necessary instructions to the branches to</p>

			<p>compliance with statutory provisions; and</p> <p>(iii) action should be ensured to effectively pursue the arrears of tax in accordance with the provisions of the acts. Responsibility should be fixed for any inaction or delay on the part of the departmental officials in effectively pursuing recovery of long pending arrears.</p>	<p>maintain relevant records properly and also instructed the assessing authorities to check the status of returns and tax thoroughly. The Department had also recovered approximately ₹ two crore from some defaulting units.</p>
2006-07	Exemption of tax on account of Export and High Sea Sale	3	<p>(i) Prescribing a system of verification of genuineness of 'H' forms filed along with the assessment records in the DTT with the sales tax offices of issuing states of transactions of ₹ 5 lakh and above to facilitate the assessing authorities to determine the correctness of exemption of tax claimed against form 'H' by the dealers;</p> <p>(ii) taking immediate measures for effective functioning of the internal audit cell; and</p> <p>(iii) fixing of targets and ensuring their achievement by the enforcement branch. Government was also to consider setting up of a mechanism for maintenance of the requisite data in appropriate formats as well as for review and disposal of pending cases detected by the enforcement branch at regular intervals.</p>	<p>The Department stated that in respect of exporters, the local 'H' Forms can be verified through system of the department, whereas, 'H' Forms issued by the other states could be verified through TINXSYS. Before releasing the refund to the exporters complete scrutiny of the documents is also carried out.</p> <p>However, the Department did not furnish the requisite data regarding verification of forms.</p> <p>These recommendations have not been implemented by the Department.</p>

2007-08	Performance appraisal of exemption of Central Sales Tax on account of branch transfer/ consignment sale	4	<p>(i) Creating a database of exemption of tax on account of branch transfer/ consignment sale;</p> <p>(ii) prescribing a periodical return/ statement by the AAs to the superior authorities about the number of 'F' forms required to be cross verified, actual number of forms verified, reasons for shortfall, if any;</p> <p>(iii) evolving a mechanism of periodic review of the stores/ stocks of 'F' forms by the higher authorities to ensure proper utilization of 'F' forms; and</p> <p>(iv) taking immediate measures for effective functioning of the internal audit cell.</p>	<p>The Department stated that most of the returns are online, database is continuously updated. However, no separate database as recommended by audit is being maintained.</p> <p>The Department did not furnish any reply.</p> <p>The Department did not implement these recommendations.</p>
2007-08	Information Technology audit of the Department of Transport	5	<p>(i) Developing of an IT strategy and an IT plan to avoid adhoc implementations;</p> <p>(ii) ensuring implementation of VAHAN covering all categories of vehicle and SARATHI;</p> <p>(iii) strengthening of input controls and validation checks to ensure data completeness and correctness;</p> <p>(iv) complete avoidance of manual interventions; and</p> <p>(v) giving due attention to contract management to avoid undue burden on the citizen and protect the interests of the department apart from monitoring of the activities of the vendors.</p>	<p>The Department accepted the recommendations and stated that NIC has revised the validation checks on the VAHAN and VAHAN 2.0 software as per the requirement of the Department.</p>
2008-09	Assessment, levy and	3	<p>(i) Devising of a system of cross</p>	<p>The Department has accepted the recommendation and</p>

	collection of tax on Works Contract		<p>verification of records to detect the unregistered works contractors and monitoring the results of such an exercise at appropriate levels;</p> <p>(ii) reviewing of working of the collection branch and crediting of payment of tax be allowed only after verification, and</p> <p>(iii) taking of immediate remedial measures for effective functioning of the internal control system including internal audit cell and enforcement branch of the department.</p>	<p>started the efforts for inter-departmental cross verification of database of dealers with the other departments and detection of unregistered dealers.</p> <p>The Department accepted the recommendation.</p> <p>The Department did not implement the recommendation.</p>
2008-09	Transition from Delhi Sales Tax to the Delhi Value Added Tax	4	<p>(i) More emphasis be given to e-governance and training of the staff;</p> <p>(ii) making of a provision in the rules for periodical submission of account of the statutory forms;</p> <p>(iii) bringing maximum number of dealers under regular assessment as scrutiny of the returns did not ensure maximisation of revenue in terms of the dealers and checks exercised; and</p> <p>(iv) fixing of a certain amount to be deposited by the dealer before filing an objection</p>	<p>The Department did not set up a training cell to impart the training to the staff.</p> <p>The dealers are still not submitting the accounts of the statutory forms in time.</p> <p>The Department has not been able to fulfill the scrutiny targets.</p> <p>The Department has not implemented the recommendation.</p>

#### 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 5 years, features of the tax administration, audit coverage and its impact during past 5 years etc.

During the year 2009-10, the audit universe comprised of 107 auditable units, of which 107 units were planned and 105 units were audited during the year 2009-10 which is 98.13 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, two 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**

Test check of the records of Department of trade and taxes, state excise, entertainment, transport, registration etc., conducted during the year 2009-10 revealed underassessment/short levy/loss of revenue aggregating ₹ 3,140.37 crore in 2696 cases. During the course of the year, the Departments concerned accepted underassessment and other deficiencies of ₹ 49.95 crore involved in 138 cases which have been pointed out by audit. Of these, the Departments recovered ₹ 0.39 crore in 49 cases during the year 2009-10.

### **1.5.2 This Report**

This report contains 18 paragraphs including one performance review on “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 ₹ 1,764.20 crore of which ₹ 49.36 crore has been accepted by the Government/Departments. These are discussed in succeeding Chapters II to IV.