

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

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

(₹ in crore)

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

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

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

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

(` in crore)

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

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

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

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

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

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

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

(` in crore)

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

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

1.2 Response of the department/Government towards Audit

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

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

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

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

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

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

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

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

1.2.2 Departmental audit committee meetings

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

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

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

1.2.3 Response of the Departments to the draft audit paragraphs

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

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

1.2.4 Follow-up on Audit Reports - summarised position

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

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

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

1.2.5 Compliance with the earlier Audit Reports

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

(` in crore)

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

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

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

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

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

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

1.3.1 Position of Inspection Reports

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

(` in crore)

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

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

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

1.3.2.1 Recovery of accepted cases

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

(` in crore)

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

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

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

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

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

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

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

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

1.4 Audit planning

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

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

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

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

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

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

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

1.5.2 This report

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