

CHAPTER-I: GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Haryana during the year 2010-11, 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 (GOI) during the year and the corresponding figures for the preceding four years are mentioned below:-

(₹ in crore)

Sr. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	• Tax revenue	10,927.76	11,617.82	11,655.28	13,219.50	16,790.37
	• Non-tax revenue	4,590.76	5,097.08	3,238.45	2,741.40	3,420.94
	Total	15,518.52	16,714.90	14,893.73	15,960.90	20,211.31
2.	Receipts from the GOI					
	• Share of net proceeds of divisible Union taxes and duties ¹	1,295.64	1,634.36	1,724.62	1,774.47	2,301.75
	• Grants-in-aid	1,138.27	1,401.48	1,833.96	3,257.29	3,050.62
	Total	2,433.91	3,035.84	3,558.58	5,031.76	5,352.37
3.	Total revenue receipts of the State Government (1 and 2)	17,952.43	19,750.74	18,452.31	20,992.66	25,563.68
4.	Percentage of 1 to 3	86	85	81	76	79

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 20,211.31 crore) was 79 per cent of the total revenue receipts against 76 per cent in the preceding year. The balance 21 per cent of receipts during the year 2010-11 was from the GOI.

The increase of ₹ 4,571.02 crore (22 per cent) in revenue receipts in 2010-11 over the previous year was on account of increase in the State's own share of tax and non-tax revenue of ₹ 4,250.41 crore (27 per cent).

The decrease of ₹ 206.67 crore (six per cent) in grants-in-aid in 2010-11 over the previous year was mainly on account of decrease in State plan grants of ₹ 170.63 crore (19 per cent) and Centrally sponsored schemes of ₹ 184.69 crore (26 per cent).

¹ For details please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Haryana for the year 2010-11. Figures under the head 0021 - Taxes on income other than corporation tax - 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 the 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 2006-07 to 2010-11:

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase(+)/ decrease(-) in 2010-11 over 2009-10
1.	Taxes on sales, trade etc./value added tax (VAT)	6,853.24	7,720.98	8,154.73	9,032.37	11,082.01	(+) 23
2.	State excise	1,217.10	1,378.81	1,418.53	2,059.02	2,365.81	(+) 15
3.	Stamps and registration fees						
	Stamps – judicial	985.62	91.37	1,030.90	945.91	848.09	(-) 10
	Stamps – non-judicial	778.46	1,651.94	267.27	341.86	1,450.33	(+) 324
	Registration fees	0.90	19.97	28.22	5.79	20.86	(+) 260
4.	Taxes on goods and passengers	738.41	379.39	370.29	391.45	387.14	(-) 1
5.	Taxes on vehicles	223.66	233.79	239.30	277.07	457.36	(+) 40
6.	Taxes and duties on electricity	98.28	107.45	106.31	119.58	130.27	(+) 9
7.	Land revenue	12.99	9.38	8.58	9.43	10.02	(+) 6
8.	Other taxes and duties on commodities and services	19.10	24.74	31.15	37.02	38.48	(+) 4
Total		10,927.76	11,617.82	11,655.28	13,219.50	16,790.37	(+) 27

The following reasons for variations were reported by the concerned Departments:

- **Taxes on vehicles:** The increase in revenue receipts (40 per cent) was mainly due to better checking by the enforcement staff and impounding of vehicles violating the provisions of Motor Vehicles Act as well as revision of rates of road tax.
- **Stamp duty and registration fee:** The increase in revenue receipts was mainly due to more transactions of immovable property.
- **State Excise:** The increase in revenue receipts was mainly due to increase in the quota of country liquor (CL) and Indian Made Foreign Liquor (IMFL) and as well as increase in licence fee of CL and IMFL.

The other Departments did not inform (October 2011) the reasons for variations, despite being requested (July 2011).

1.1.3 The following table presents the details of non-tax revenue raised during the period 2006-07 to 2010-11:

(₹ in crore)

Sr. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase(+)/ decrease(-) in 2010-11 over 2009-10
1.	Urban development	2,562.34	2,805.24	884.50	133.70	974.54	(+) 629
2.	Interest receipts	648.63	757.20	776.28	667.88	689.34	(+) 3
3.	Road transport	571.18	622.56	645.04	699.57	761.72	(+) 9
4.	Non-ferrous mining and metallurgical industries	136.83	215.74	195.97	247.49	82.59	(-) 67
5.	Other administrative services	61.94	105.54	120.95	96.81	115.63	(+) 19
6.	Miscellaneous general services	130.22	91.25	89.39	95.93	(-) 9.75 ²	(-) 110
7.	Major and medium irrigation	87.19	72.27	74.01	218.56	202.26	(-) 7
8.	Education, sports, art and culture	111.62	117.70	156.10	285.10	270.37	(-) 5
9.	Police	22.79	41.44	55.22	35.11	61.53	(+) 75
10.	Forestry and wildlife	38.62	33.79	40.74	56.13	44.32	(-) 21
11.	Medical and public health	31.59	64.91	30.94	30.23	47.06	(+) 56
12.	Other non-tax receipts	187.81	169.44	169.31	174.89	181.33	(+) 4
Total		4,590.76	5,097.08	3,238.45	2,741.40	3,420.94	(+) 25

The following reasons for variations were reported by the concerned Departments:

- **Forestry and wild life:** The decrease in revenue receipts (21 per cent) was due to non-cutting of trees.
- **Non-ferrous mining and metallurgical industries:** The decrease in revenue receipts (67 per cent) was mainly due to closure of mining activities due to pending litigation regarding mining in Aravali hills.
- **Road Transport:** The increase in revenue receipts (nine per cent) was mainly due to better checking by enforcement staff and impounding of

² Due to more refunds than receipts.

vehicles violating the provisions of Motor Vehicle Act as well as revision of rates of road tax.

The other Departments did not inform (October 2011) the reasons for variations, despite being requested (July 2011).

1.2 Response of the Departments/Government towards Audit

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

A brief introduction about the various stages of action on the audit observations/recommendations is mentioned below:

The Principal Accountant General (Audit) Haryana (PAG) 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 six weeks from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government. Some of these are reported through Report of the Comptroller and Auditor General of India (Audit Report) to the State Legislature every year. The Departments are requested to submit their replies to the Public Accounts Committee (PAC) which examines them in their meetings and give their reports to the State Legislature.

IRs issued upto December 2010 disclosed that 4,734 paragraphs involving ₹ 1,484.56 crore relating to 2,313 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of outstanding IRs	2,868	2,460	2,313
Number of outstanding audit observations	6,553	5,122	4,734
Amount involved (₹ in crore)	8,663.68	1,507.03	1,484.56

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amount involved are mentioned below:-

Sr. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Excise and Taxation	Sales tax/VAT	259	1,328	625.88
		State excise	111	191	73.36
		Taxes on goods and passengers	129	225	13.96
		Entertainment duty and show tax	19	21	10.94
2.	Revenue	Stamps and registration fees	812	1,727	55.63
		Land revenue	119	186	0.47
3.	Transport	Taxes on vehicles	248	323	7.80
4.	Power	Taxes and duties on electricity	5	5	0.23
5.	Agriculture (Sugarcane)	Purchase tax on sugarcane	31	33	24.68
6.	Urban Development (Town and Country Planning)	Services and service fees for urban development schemes	4	12	573.12
7.	Home (Police)	Receipts of cost of police deployed to other Governments/ Railways etc.	44	47	7.59
8.	Mines and Geology	Non-ferrous mining and metallurgical industries	110	148	14.33
9.	Other Departments	Miscellaneous receipts	422	488	76.57
Total			2,313	4,734	1,484.56

Even the first replies required to be received from the heads of offices within six weeks from the date of issue of the IRs were not received in respect of 119 IRs issued upto December 2010. This 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 failed to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

It is recommended that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations. The Government may take action against officers/officials who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and who 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 in September 1985 to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The Audit Committees may be formed for each Administrative Department which should include Administrative Secretary (Chairman), Deputy Accountant General (Convenor) and Heads of Department (Member). The meetings of these committees may be arranged once in three months to review the progress of the settlement of audit paras and to monitor the pace of work in this behalf. The Chief Secretary has also impressed upon the Administrative Secretaries (August 1998) to ensure holding of Departmental Audit Committee meetings on quarterly basis and inform the Finance Department of the outcome of such meetings.

We observed that the Administrative Secretary had not ensured holding of quarterly Departmental Audit Committee meetings during the year 2010-11. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled (out of total paragraphs)	Amount (₹ in crore) (out of total amount)
Taxes on vehicles	1	129 (319)	1.32 (8.92)
State excise	1	25 (240)	9.00 (53.40)
Passengers and goods tax	2	2 (9)	0.03 (13.62)
Stamp Duty	1	-	-
Taxes on sales, trade etc./VAT	1	-	-
Total	6	156 (568)	10.35 (75.94)

During the year 2010-11, only five out of 13 Departments dealing with 19 major heads of tax and non-tax revenue had convened six meetings of the audit committee. Thus, these Departmental Audit Committees are not functioning effectively since most of the Government Departments had not taken initiatives for disposal/settlement of the pending audit paragraphs/objections through these meetings.

The Government should ensure holding of periodical meetings of the committees for effective progress.

1.2.3. Non-production of records to Audit for scrutiny

The programme of local audit parties of VAT receipts in the offices of Deputy Excise and Taxation Commissioner (DETC) 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 2010-11, 12 VAT assessment cases pertaining to two DETCs were not made available to audit. Thus, VAT assessment cases involving revenue of ₹ 15.87 crore could not be checked in audit. Break-up of these cases are given below:

Name of DETC	Year in which it was to be audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained	Revenue involved (₹ in crore)
Faridabad (East)	2010-11	5	5	15.74
Kaithal	2010-11	7	7	0.13
	Total	12	12	15.87

1.2.4 Response of the Departments to the draft audit paragraphs

The Finance Department had issued directions to all the Departments on 5 January 1982 to send their response to the draft audit paragraphs proposed for inclusion in the Audit Report within six weeks. The draft paragraphs are forwarded by the PAG to the Secretaries of the Departments concerned 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 replies from the Departments is invariably indicated at the end of each paragraph included in the Audit Report.

27 draft paragraphs (clubbed in 19 paragraphs) and four reviews included in the Audit Report (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the Secretaries of the Departments concerned during January to June 2011 through demi-official letters. However, reply was received only in one case.

1.2.5 Follow up on Audit Reports-summarised position

According to the instructions issued by the Finance Department in October 1995 and reiterated in July 2001, the administrative Departments were to initiate suo moto positive and concrete action on all paragraphs and reviews featuring in the Audit Report (Revenue Receipts) regardless of whether the cases were taken up for examination by the PAC or not. They were also to furnish detailed notes, duly vetted by Audit indicating the remedial action taken or proposed to be taken by them within three months of the presentation of the Audit Report to the Legislature.

The position of paragraphs which have appeared in the Audit Report and those pending discussion as on 30 September 2011 has been mentioned in **Annexure I**. One hundred sixteen (116) paragraphs pertaining to the period 2005-06 to 2009-10 were pending for discussion by the PAC. The Administrative Departments had failed to submit action taken notes (ATNs) in

respect of 52 out of 116 paragraphs within three months from the date of presentation³ of the Audit Report to the Legislature.

Further, the response of the Administrative Departments towards the recommendations of the PAC was not encouraging as 607 recommendations pertaining to the period 1977-78 to 2004-05 were still pending for want of final action by the concerned Departments (**Annexure II**).

1.2.6 Compliance with the earlier Audit Reports

During the years between 2005-06 and 2009-10, the Department/Government accepted audit observations involving revenue of ₹ 668.89 crore out of which an amount of ₹ 327.48 crore was recovered till 31 March 2011 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	200.60	98.17	6.22
2006-07	407.54	392.67	315.23
2007-08	122.75	29.65	1.93
2008-09	82.74	75.64	0.68
2009-10	346.97	72.76	3.42
Total	1,160.60	668.89	327.48

The recovery in respect of the accepted cases was 49 *per cent* only, which indicated lack of adequate action to enforce recoveries.

The Government may advise the concerned Departments to take necessary steps for speedy recovery.

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 IRs/ Audit Report by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Report of the last 10 years in respect of Revenue Department (Stamp duty and registration fees) is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Revenue Department (Stamp duty and registration fees) 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 Report for the years 2001-02 to 2010-11.

1.3.1 Position of Inspection Reports

The IRs incorporating irregularities detected during inspections of the transactions of tax and non-tax receipts (including verification of maintenance of records and accounting procedure) of the various offices of the Revenue Department are issued to the heads of the offices inspected/next higher

³ 2005-06: March 2007; 2006-07: March 2008, 2007-08: February 2009, 2008-09: March 2010 and 2009-10: 04 March 2011.

authorities for taking prompt corrective action. The heads of offices/Department/Government are required to comply with the observations contained in the IRs and rectify the defects and omissions promptly. They were also required to report compliance through initial reply to the PAG within six weeks from the date of issue of the IRs. Serious financial irregularities are also reported to the head of the Department (Revenue Department) and Government through demi-official letter for examination and taking prompt action and offering comments thereon, if any, within six weeks from the date of issue of the advance para. In case of non-receipt of reply within six weeks, we had issued reminders after 50 days from the date of issue of the IRs and thereafter every month. We had also issued half-yearly position of the outstanding audit observations through demi-official letter to the Administrative Department and Collector.

The summarised position of IRs issued during the last 10 years, paragraphs included in these reports and their status as on March 2011 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 (Percentage to opening balances)	Money value	IRs	Para - graphs	Money value
Upto 2001-02	865	1554	26.04	85	367	7.69	23	168	1.67	927	1753	32.06
2002-03	927	1753	32.06	20	383	8.75	79	258	8.49	868	1878	32.32
2003-04	868	1878	32.32	31	253	4.62	56	182	1.32	843	1949	35.61
2004-05	843	1949	35.61	95	298	6.38	15	158	2.54	923	2089	39.45
2005-06	923	2089	39.45	105	291	14.97	5	156	2.77	1023	2224	51.65
2006-07	1023	2224	51.65	107	318	16.53	31	157	1.72	1099	2385	66.46
2007-08	1099	2385	66.46	140	428	18.55	201	742	21.33	1038	2071	63.68
2008-09	1038	2071	63.68	165	281	8.18	318	424	18.56	885	1928	53.30
2009-10	885	1928	53.30	135	316	12.49	93	273	12.23	927	1971	53.56
2010-11	927	1971	53.56	103	300	12.11	176	450	5.42	854	1821	60.25

The year-wise details of closing balance of IRs, paragraphs and amount involved is given in **Annexure-III**. Out of 1,821 audit observations involving revenue of ₹ 60.25 crore in 854 IRs, 439 audit observations involving revenue of ₹ 12.57 crore (21 per cent) in 324 IRs were more than five years old.

We observed that despite issuing periodical reminders and convening of periodical meetings of the audit committee, there was large pendency of IRs/audit observations which is indicative of failure on the part of the heads of the offices/Collector and Administrative Department to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

To ensure that action to recover the revenue dues does not become time barred, the Government may take suitable steps to ensure that:

- an effective procedure exists for prompt and appropriate response to the audit observations;
- action is taken against officials/officers who fail to take effective steps to get the audit observations settled at the earliest after getting Government revenue recovered or other action as per law; and
- action is taken to recover loss/outstanding demands in a time bound manner.

1.3.2 Assurances 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 Report of the last 10 years, those accepted by the Department and the amount recovered are mentioned below:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraph	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year (₹ in lakh)	Cumulative position of recovery of accepted cases (₹ in lakh)
2000-01	05	1.02	05	1.02	Nil	18.02
2001-02	05	1.85	05	1.85	0.01	3.96
2002-03	04	0.35	04	0.35	0.17	1.34
2003-04	05 01(Review)	0.34 55.00	04 01 (Review)	0.31 55.00	0.07 10.59	1.10 16.46
2004-05	04	1.47	04	1.47	Nil	2.88
2005-06	03	7.25	03	7.25	11.00	11.00
2006-07	03	0.34	03	0.34	1.31	1.31
2007-08	04 01(Review)	1.70 24.69	04 01 (Review)	1.70 15.11	Nil	Nil
2008-09	05	0.76	05	0.76	1.43	1.43
2009-10	01(Review)	22.85	01 (Review)	20.96	11.50	11.50
Total	38 03 (Reviews)	15.08 102.54	37 03 (Review)	15.05 91.07	13.99 22.09	41.04 27.96
Grand Total	41	117.62	40	106.12	36.08	69.00

The recovery in respect of the accepted cases for the last ten years was only 0.65 per cent.

The Government may advise the concerned Departments to take necessary steps for speedy recovery.

1.3.2.2 Action taken on the recommendations accepted by the Department/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 Reports of the Comptroller and Auditor General of India.

The issues highlighted in the reviews including recommendations on the Revenue Department relating to Stamp duty and registration fee had featured in the Report of Comptroller and Auditor General of India. The Head of the Department/Government had not intimated their acceptance or any action taken on the 13 recommendations (**Annexure- IV**) included in the three Reports of the Comptroller and Auditor General of India during the years 2000-01 to 2009-10 for the levy and collection of stamp duty and registration fee.

We observed that the Revenue Department/Government had sent their replies to the PAC relating to reviews included in the Audit Report for the years 2000-01 to 2009-10. But they had not given any reply either regarding acceptance of these recommendations or any other comments thereon against the para on conclusion and recommendations of the Audit Reports for the years 2003-04, 2007-08 and 2009-10. They had not furnished replies to the PAC for the Audit Reports for the years 2006-07 to 2009-10. This indicates that the Revenue Department had neither taken any steps for the acceptance/implementation of the recommendations nor intimated their comments thereon.

The Government may advise the Revenue Department to take suitable steps to ensure the compliance of the recommendations or give their comments, if any.

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 etc. 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 past five years etc.

During the year 2010-11, out of 557 auditable units, 316 units were planned and audited during the year 2010-11 which constituted 57 *per cent* of the total auditable units. The details of auditable units and units selected are shown in the **Annexure-V**.

Besides the compliance audit completed as mentioned above, four performance reviews namely 'Receipts from State Excise duty', 'Exemption/deferment and concessions of Sales Tax to Industrial units', 'Cross verification of Declaration forms used in inter State trade', and 'Computerisation in Motor Vehicle Department' 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 316 units of sales tax/VAT, stamp duty and registration fee, State excise, motor vehicles, forest and other Departmental offices conducted during the year 2010-11 revealed underassessments/short levy/loss of revenue in 4,662 cases aggregating ₹ 1,052.85 crore. During the course of the year, the concerned Departments accepted underassessments and other deficiencies of ₹ 222.79 crore involved in 2,176 cases of which 1,574 cases involving revenue of ₹ 205.18 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 13.77 crore in 519 cases during 2010-11.

1.5.2 This Report

This Report contains 19 paragraphs and four **Performance Audits on 'Exemption/deferment and concession of Sales Tax to industrial units', 'Cross verification of Declaration forms used in inter State trade', 'Computerisation in Motor Vehicle Department' and 'Receipts from State Excise Duty'** relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 324.73 crore.

The Departments/Government have accepted audit observations involving ₹ 183.13 crore out of which ₹ 3.89 crore has been recovered. The replies in the remaining cases had not been received (October 2011). These are discussed in succeeding Chapters II to VI.