

Chapter-1 General

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Himachal Pradesh during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to the State 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)

Sr. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	● Tax revenue	1,656.38	1,958.18	2,242.49	2,574.52	3,642.38
	● Non-tax revenue	1,336.85	1,822.43	1,756.24	1,783.66	1,695.31
	Total	2,993.23	3,780.61	3,998.73	4,358.18	5,337.69
2.	Receipts from the Government of India					
	● Share of net proceeds of divisible Union taxes and duties	629.16	793.64	837.49	861.63	1,715.35
	● Grants-in-aid	4,212.83	4,567.29	4,471.77	5,126.55	5,657.57
	Total	4,841.99	5,360.93	5,309.26	5,988.18	7,372.92
3.	Total revenue receipts of the State Government (1 and 2)	7,835.22	9,141.54	9,307.99	10,346.36	12,710.61¹
4.	Percentage of 1 to 3	38	41	43	42	42

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 5,337.69 crore) was 42 per cent of the total revenue receipts. The balance 58 per cent of the receipts during 2010-11 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 Himachal Pradesh for the year 2010-11. Figures under the Major Head 0020-Corporation tax; 0021-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-901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

1.1.2 The following table presents the details of the 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 (+) or decrease (-) in 2010-11 over 2009-10
1.	Taxes/VAT on sales, trade etc.	914.45	1,092.16	1,246.31	1,487.40	2,101.10	41
2.	State excise	341.86	389.57	431.83	500.26	561.53	12
3.	Stamps and registration fees						
	Stamps - judicial	3.18	4.10	4.69	5.95	6.58	11
	Stamps -non-judicial	68.86	64.12	73.53	84.10	101.50	21
	Registration fees	20.43	18.77	20.11	23.34	24.61	5
4.	Taxes and duties on electricity	30.43	81.57	78.83	39.08	301.59	672
5.	Taxes on vehicles	106.35	113.72	135.53	133.97	163.02	22
6.	Taxes on goods and passengers	50.22	55.12	62.39	88.74	93.46	5
7.	Land revenue	1.91	1.89	20.28	14.54	4.78	(-) 67
8.	Others ²	118.65	137.13	168.99	197.14	284.21	44
	Total	1,656.34	1,958.15	2,242.49	2,574.52	3,642.38	41

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

Taxes/VAT on sales, trade etc.: The increase was stated to be due to the inclusion of the goods under tax, which were earlier out of tax net, hike in tax from 12.50 per cent to 13.75 per cent at par with adjoining states and more activation of the tax administration.

State excise: The increase was stated to be due to increase in application fee, annual license fee on country liquor/Indian made foreign liquor, area wise annual bar license fee and increase in number of liquor vends.

Stamps and registration fees: The increase was due to more sales of stamps and registration of more documents.

Taxes and duties on electricity: The increase was stated to be mainly due to deposit of balance amount of electricity duty of previous years in 2010-11 by the Himachal Pradesh State Electricity Board Ltd. and increase in the rates of electricity duty.

Taxes on goods and passengers: The increase was stated to be due to more receipt on account of transportation of iron, steel and plastic goods, increase in number of vehicles and increase in the rate of goods tax on all types of yarn.

Other taxes and duties on commodities and services: The increase was stated to be due to more transportation of clinker, cement, apples and other items under Certain Goods Carried by Road (CGCR) Act, increase in income from hotels and lodging houses and toll auction revenue.

² The figures relating to years 2006-07: ₹ (-) 4 lakh and 2007-08: ₹ (-) 3 lakh on account of share of net proceeds assigned to the state.

The other Departments despite being requested (August 2011) did not intimate the reasons for variation in receipts from that of the previous year (December 2011).

1.1.3 The following table presents the details of the 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 (+) or decrease (-) in 2010-11 over 2009-10
1.	Power	910.08	1,414.52	1,255.43	1,214.80	1,093.21	(-) 10
2.	Non-ferrous, mining and metallurgical industries	48.39	56.59	76.57	85.09	113.84	33.78
3.	Interest receipts	87.18	66.90	77.97	76.93	69.95	(-) 9
4.	Forestry and wild life	45.55	53.60	55.40	72.11	65.44	(-) 9
5.	Public works	16.50	20.38	22.59	30.81	34.66	13
6.	Other administrative services	11.13	12.64	14.07	17.28	31.00	79
7.	Police	8.45	12.31	15.05	11.57	19.10	65
8.	Medical and public health	5.38	7.68	8.19	5.81	8.40	45
9.	Co-operation	7.28	4.93	2.80	3.35	9.59	186
10.	Miscellaneous general services	73.86	47.51	5.25	1.05	2.06	96
11.	Major and medium irrigation	0.21	0.22	0.17	0.14	6.84	4,786
12.	Other Non-tax receipts ³	122.84	125.15	222.75	264.72	241.22	(-) 8.87
	Total	1,336.85	1,822.43	1,756.24	1,783.66	1,695.31	(-) 5

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

Forestry and Wild Life: The decrease was stated to be due to less receipt of cost of trees coming in the project areas.

Public Works: The increase was stated to be due to receipt from more construction work of residential and non-residential buildings and more recovery of departmental charges on deposit works.

Co-operation: The increase was stated to be due to more reimbursement of grants from the National Co-operative Development Corporation, New Delhi for the execution of three Integrated Co-operative Development Projects of the State.

Major and medium irrigation: The increase was stated to be due to more

³ Comprises mainly receipts from Himachal Pradesh Public Service Commission, Printing & Stationery, Water Supply & Sanitation, Family Welfare and Housing Departments.

receipt of share on account of Shah Naher (Canal) Project.

The other Departments despite being requested (August 2011) did not intimate the reasons for variation in receipts from that of the previous year.

1.2 Response of the Department/Government towards audit

1.2.1 Failure of the officials to enforce accountability

The Principal Accountant General (Audit), Himachal Pradesh (PAG) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of 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 Department and the Government.

Inspection reports issued upto December 2010 disclosed that 8,608 paragraphs involving ₹ 586.21 crore relating to 3,572 IRs remained outstanding at the end of June 2011 as mentioned below alongwith the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of IRs pending for settlement	3,375	3,432	3,572
Number of outstanding audit observations	7,975	8,056	8,608
Amount of revenue involved (₹ in crore)	470.48	494.43	586.21

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned in the following table:

(₹ in crore)

Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes/VAT on Sales, Trade etc.	120	722	130.58
		Passenger & Goods Tax (PGT)	207	513	7.67
		Other Taxes & Duties on commodities and services (OTD)	315	402	13.54
		Entertainment tax, luxury tax etc.	121	257	1.01
2.	Excise	State excise	60	192	34.76
3.	Revenue	Land revenue	246	439	0.86
4.	Transport (MVT)	Taxes on motor vehicles	678	2,150	50.57
5.	Stamp and registration	Stamp and registration fees	584	1,018	35.07
6.	Mines and geology	Non-ferrous mining and metallurgical industries	50	128	20.44
7.	Forest and environment	Forestry and wild life	599	1,622	253.27
8.	Water resources (IPH)	Water rates	132	319	22.10
9.	B&R (PWD)	Public Works Department	234	410	8.33
10.	Crop husbandry	Horticulture and Agriculture	170	302	1.27
11.	Co-operation	Audit fees and other receipts	56	134	6.74
Total			3,572	8,608	586.21

We have not received even the first replies to be received from the heads of offices within one month from the date of issue of the IRs for 116 IRs issued upto December 2010. 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.

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

1.2.2 Departmental audit committees meetings

The Government set up audit committees (June 2010–February 2011) to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

(₹ in lakh)

Sr. No.	Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
1.	Taxes/VAT on sales, trade etc.	Nil	Nil	Nil
2.	Stamp duty and registration fees	1	15	1.24
3.	State excise	Nil	Nil	Nil
4.	Taxes on vehicles	1	13	36.00
5.	Land revenue	1	9	3.90
6.	Forest	1	53	268.00
	Total	4	90	309.14

The progress of settlement of paragraphs pertaining to the Excise and Taxation Department, Transport Department and Revenue Department was negligible as compared to the huge pendency of the IRs and paragraphs, despite holding Departmental audit committee meetings.

1.2.3 Response of the State Government to draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the PAG to the Principal Secretaries/Secretaries of the concerned Department, drawing their attention to audit findings and requesting them to send their response within four weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Thirty seven draft paragraphs including three performance audits proposed to be included in the Report for the year ended 31 March 2011 were sent to the Principal Secretaries/Secretaries of the respective Departments by name between February and June 2011. The Principal Secretaries/Secretaries of the Departments did not send replies to 17 draft paragraphs including reviews despite issue of reminders (August 2011). These paragraphs have been included in this report without the response of the Departments.

1.2.4 Follow up on Audit Reports-summarised position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Report(s) were being delayed inordinately. Out of 147 paragraphs (including reviews) included in the Reports of the Comptroller and Auditor General of India on the revenue receipts of the Government of Himachal Pradesh for the years ended 31 March 2006, 2007, 2008 and 2009 which were placed before the Legislature Assembly between 3 April 2007 and 13 April 2010, the action taken explanatory notes from the concerned Departments were received late with average delay of 20, 13, nine and six months in respect of each of these Audit Reports respectively.

1.2.5 Compliance with the earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2005-06 to 2009-10, the Departments/Government accepted audit observations involving ₹ 1,035.44 crore of which ₹ 74.73 crore had been recovered till 31 March 2011 as mentioned in the following table:

(₹ in crore)			
Year of Audit Report	Total money Value	Accepted money Value	Recovery made
2005-06	58.32	12.32	0.28
2006-07	82.38	61.28	30.71
2007-08	105.05	5.96	1.01
2008-09	182.02	126.33	38.92
2009-10	1,420.98	829.55	3.81
Total	1,848.75	1035.44	74.73

The above table indicates that the amount recovered was only 7.22 per cent of the accepted amount while the Government/Departments have accepted 56 per cent of the cases included in the Audit Reports.

The Government may consider introducing a mechanism for ensuring 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 10 years in respect of one Department 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 (Stamps and Registration Fees)** in dealing with the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2000-01 to 2009-10.

1.3.1 Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2011 are tabulated below:

(₹ in crore)

Sr. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			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
1.	2000-01	316	676	3.78	97	275	1.28	53	214	0.12	360	737	4.94
2.	2001-02	360	737	4.94	97	273	1.38	40	149	0.13	417	861	6.19
3.	2002-03	417	861	6.19	107	267	1.98	66	228	2.17	458	900	6.00
4.	2003-04	458	900	6.00	91	222	1.27	67	182	0.09	482	940	7.18
5.	2004-05	482	940	7.18	82	211	0.11	59	193	0.77	505	958	6.52
6.	2005-06	505	958	6.52	124	268	0.50	70	191	1.28	559	1035	5.74
7.	2006-07	559	1035	5.74	80	246	4.39	53	162	0.06	586	1119	10.07
8.	2007-08	586	1119	10.07	73	205	6.00	52	143	0.64	607	1181	15.43
9.	2008-09	607	1181	15.43	82	194	2.63	92	374	4.77	597	1001	13.29
10.	2009-10	597	1001	13.29	81	207	1.59	62	167	1.95	616	1041	12.93

Ad hoc Committee meetings are arranged by the Government between the Department and PAG's office. Spot settlement parties are also formed by the PAG periodically to watch compliance made by the Departments and settle old paragraphs. As would be evident from the above table, against 316 IRs with 676 outstanding paragraphs as on 2000-01, the number of outstanding IRs rose to 616 with 1,041 paragraphs at the end of 2009-10. This is indicative of the fact that adequate steps were not taken by the Department in this regard resulting in piling up of the outstanding IRs and paragraphs.

1.3.2 Assurances given by the Departments/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, those accepted by the Department and the amount recovered are mentioned below:

(₹ in lakh)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31.03-2011
2000-01	5	425.04	5/422.16	425.04	305.58	331.10
2001-02	--	--	--	--	--	--
2002-03	3	57.22	3/39.80	57.22	1.88	8.33
2003-04	3	9.79	2/5.90	6.75	--	--
2004-05	2	475.63	2/453.11	475.63	33.59	102.43
2005-06	4	73.87	4/65.57	73.87	2.22	3.05
2006-07	3	286.53	3/274.25	286.53	1.86	11.18
2007-08	6	500.76	5/493.29	493.29	1.73	18.43
2008-09	2	186.88	2/186.88	186.88	1.34	22.46
2009-10	2	151.36	2/151.36	151.36	0.15	0.15

It is evident from the above table that the progress of recovery of accepted cases was very slow throughout the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. No mechanism for pursuance of the accepted cases had been devised and position of arrears including accepted audit recoveries was not available with the Inspector General of Registration. In the absence of a suitable mechanism, the Department could

not monitor the recovery of accepted cases. The position has been elaborated in Chapter-VI of this Audit Report.

The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

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 the 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, factors of the tax administration, audit coverage and its impact during the past five years etc.

During the year 2010-11, the audit universe comprised of 510 auditable units, of which 281 units were planned and audited during the year 2010-11, which is 55 per cent of the total units. The details are available in the **Annexure-I**.

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

Test check of the records of 281 units of sales tax/value added tax, state excise, motor vehicles, goods and passengers, forest receipts and other Departmental offices conducted during the year 2010-11 revealed under assessment/short levy/loss of revenue aggregating ₹ 431.05 crore in 1,062 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 30.43 crore involved in 317 cases which were pointed out in audit during 2010-11. The Departments collected ₹ 0.67 crore in 82 cases during 2010-11.

1.5.2 This Report

This report contains 37 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) including three performance audits titled "*Utilisation of declaration forms in Inter State Trade*", "*Computerisation in the Transport Department*" and "*Interest Receipts including Dividends and Profits*" relating to short/non-levy of tax, duty and interest penalty etc., involving financial effect of ₹ 141.27 crore. The Departments/Government have accepted audit observations involving ₹ 23.52 crore out of which ₹ 76.07 lakh had been recovered. The replies in the remaining cases have not been received (December 2011). These are discussed in succeeding Chapters II to VI.