

## CHAPTER-I GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Jammu and Kashmir during the year 2010-11, 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 given in the following table.

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	Tax Revenue	1798.97	2558.18	2682.96	3027.32	3482.58
	Non-tax revenue	632.53	807.98	837.16	955.03	1093.11
	<b>Total</b>	<b>2431.50</b>	<b>3366.16</b>	<b>3520.12</b>	<b>3982.35</b>	<b>4575.69</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	Share of net proceeds of divisible Union taxes and duties	1413.43	1775.01	1826.95	1914.76	3066.98
	Grants-in-aid	7337.10	8135.87	8955.46	11690.71	14590.98
	<b>Total</b>	<b>8750.53</b>	<b>9910.88</b>	<b>10782.41</b>	<b>13605.47</b>	<b>17657.96</b>
<b>3.</b>	<b>Total revenue receipts of the State Government<sup>1</sup> (1&amp; 2)</b>	<b>11182.03</b>	<b>13277.04</b>	<b>14302.53</b>	<b>17587.82</b>	<b>22233.65</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>22</b>	<b>25</b>	<b>25</b>	<b>23</b>	<b>21</b>

The above table indicates that during 2010-11 the over all receipts of the State increased by 26 per cent over the previous year. The State's own revenue (₹ 4575.69 crore) was 21 per cent of the total revenue receipts against 23 per cent in the preceding year. The balance 79 per cent were met from the funds received from Government of India (GOI) of which 82.63 per cent came in the form of Grant-in-aid. The Grant-in-aid from GOI constituted 65.62 per cent of the States receipts.

<sup>1</sup> For details please see Statement No. 11 - Detailed accounts of revenue by minor heads in the Finance Accounts of Jammu and Kashmir for the year 2010-11. Figures under the major heads 0020 - Corporation tax, 0021 - Taxes on Income other than Corporation Tax, 0028 - Other Taxes on Income and Expenditure, 0032 - Taxes on Wealth, 0037 - Customs, 0038 - Union Excise duties, 0044 - Service Tax and 0045 - Other Taxes and Duties on Commodities and Services - 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 table.

**1.1.2** The following table presents the details of tax revenue raised during the period 2006-07 to 2010-11.

(₹ in crore)

Sl. 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.	Tax on Sales Trade (sales Tax/VAT) etc.	1159.72	1804.81	1835.99	2145.72	2424.52	(+13)
2.	State Excise	212.80	244.15	238.67	293.78	337.24	(+15)
3.	<b>Stamp Duty and Registration Fees</b>						
	Stamps judicial	7.48	5.00	5.83	9.01	12.49	(+39)
	Stamps non-judicial	41.36	50.48	41.75	51.97	59.24	(+14)
	Registration Fees	8.08	10.14	9.56	8.53	6.85	(-20)
4.	Taxes and Duties on Electricity	59.70	93.49	150.76	120.34	147.50	(+23)
5.	Taxes on Vehicles	63.96	72.60	65.47	83.09	115.33	(+39)
6.	Tax on Goods and Passengers	243.16	264.59	271.39	299.43	337.16	(+13)
7.	Taxes on immovable property on other than Agricultural Income	0.06	-	-	-	-	-
8.	Land Revenue	2.57	9.58	63.53	15.41	42.03	(+173)
9.	Others Taxes and Duties Commodities and Services	0.07	3.33	0.01	0.02	0.22	(+1000)
	<b>Total</b>	<b>1798.96</b>	<b>2558.17</b>	<b>2682.96</b>	<b>3027.30</b>	<b>3482.58</b>	<b>(+15)</b>

The above table indicates that the tax revenue collected by the State has increased over the period 2006-11. The tax revenues have increased by 15 per cent in 2010-11 as compared to 2009-10. Of the above, receipts under the 'Land Revenue' has shown fluctuating trends during the last five years. We did not receive the reasons for increase in receipts in 2010-11 over those of 2009-10 despite requests to the concerned Departments (August 2011).

Our analysis of the Finance Accounts for the year 2010-11 of the State and other information available, however, indicated that increase in 'State Excise' was mainly due to more revenue on account of sale of liquor. The increase in 'Taxes and Duties on Electricity' was corresponding to the increased Power Tariff under the head 0801 –

Power. The receipts under other heads have constantly been increasing due to increase in the dealer base, steady increase in cost of land, increase in number of vehicles etc.

**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)

Sl. 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.	Power	478.94	600.94	629.98	723.64	822.09	(+)14
2.	Interest Receipts, Dividends and Profits	34.02	65.33	56.51	54.80	67.04	(+)22
3.	Forestry and Wild Life	18.99	32.20	31.61	37.46	47.47	(+)27
4.	Public Works	16.16	16.44	16.89	23.87	23.58	(-) 1
5.	Medical and Public Health	12.62	13.21	9.92	9.49	9.40	(-) 1
6.	Water Supply and Sanitation	10.95	13.64	14.65	13.16	15.97	(+)21
7.	Police	6.59	4.21	10.35	12.84	10.99	(-)14
8.	Non-ferrous Mining and Metallurgical Industries	9.98	16.43	14.86	25.34	34.51	(+)36
9.	Crop Husbandry	4.31	4.52	5.00	5.23	4.53	(-)13
10.	Animal Husbandry	4.75	4.66	4.70	5.13	5.41	(+)5
11.	Education, Sports, Art and Culture	1.69	1.53	1.61	2.21	2.56	(+)16
12.	Others	33.53	34.87	41.08	41.86	49.55	(+)18
	<b>Total</b>	<b>632.53</b>	<b>807.98</b>	<b>837.16</b>	<b>955.03</b>	<b>1093.10</b>	(+)14

The collection under non-taxes revenue heads too has shown steady rise since 2006-07. The non-tax receipts increased by 14 *per cent* in 2010-11 when compared to 2009-10. We did not receive the reasons for increase in receipts in 2010-11 over those of 2009-10 despite requests to the concerned Departments (August 2011).

## **1.2 Response of the Departments/Government towards audit**

Principal Accountant General (Audit) Jammu and Kashmir (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 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 offices/ Government are required to comply promptly with the observations contained in the IRs, rectify the defects

and omissions and report compliance through initial reply to the PAG's office within one month from the date of receipt of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

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

Inspection Reports issued upto June 2010 disclosed that 1948 paragraphs involving ₹ 1691.33 crore relating to 554 IRs remained outstanding at the end of 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	437	487	554
Number of outstanding audit observations	1503	1678	1948
Amount involved (₹ in crore)	725.59	745.83	1691.33

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

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade etc.	257	1226	727.47
2.	Excise	State Excise	63	135	130.00
3.	Transport	Taxes on Motor Vehicles	51	168	20.86
4.	Stamps and Registration	Stamps and Registration Fees	183	419	813.00
	<b>Total</b>		<b>554</b>	<b>1948</b>	<b>1691.33</b>

This large pendency of the IRs indicated that the Heads of Offices and Heads of the Departments do not take prompt action to rectify the defects, omissions and irregularities pointed out by the PAG. The prolonged delay in settlement of the audit observations is fraught with the risk of their becoming too old for effecting recovery action by the concerned Departments.

### **1.2.2 Departmental Audit Committee Meetings**

During the year 2010-11, no Audit Committee Meeting was held for settlement of the audit observations raised by the State Revenue Audit.

**We recommend that the Government should in the interest of revenue:**

- **advise the concerned Departments to hold Audit Committee Meeting frequently and monitor the progress of settlement of paragraphs and ensure that demands/recoveries are timely made; and**

- **take 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.**

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

Serious and important audit observations (draft paragraphs) noticed during local inspections are proposed to be included in the Audit Report of the Comptroller and Auditor General of India (CAG), and are forwarded to the Secretaries of the Departments concerned, 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 such paragraph included in the Audit Report.

We conducted three Performance Audits during the year ended 2011. These Performance Audits along with seven draft audit paragraphs proposed to be included in the Audit Report of the Comptroller and Auditor General of India (CAG) for the year ended March 2011, Government of Jammu and Kashmir were forwarded to the concerned Secretaries of the respective Departments (September 2011). Performance Audits were discussed in the Exit Conference held with the Government/ concerned Departments.

### **1.2.4 Follow up on Audit Reports – Summary**

As per the instructions of State Finance Department, the Departments of the Government are required to prepare and send to the Jammu and Kashmir Legislative Assembly Secretariat, *suo-motu* Action Taken Notes (ATNs) on the audit paragraphs within three months of an Audit Report being laid on the table of the Legislature.

A review of the position in this regard revealed that as of October 2011, out of 71 paragraphs included in the Audit Reports for the years 2000-01 to 2009-10 the ATNs in respect of 60 paragraphs due between June 2002 and October 2011 had not been furnished.

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

The Succeeding Paragraphs 1.3.1 and 1.3.2 discuss the performance of the Commercial Taxes Department to deal 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 years 2004-05 to 2008-09.

### **1.3.1 Position of Inspection Reports**

The summarised position of Inspection Reports issued during the last three years, paragraphs included in these Reports and their status as on 30 June 2011 are tabulated in the following table:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2008-09	423	1446	725.00	53	266	28.69	2	67	14.58	474	1645	739.11
2009-10	474	1645	739.11	70	342	935.57	4	96	49.20	540	1891	1625.48
2010-11	540	1891	1625.48	65	280	132.61	6	118	31.21	599	2053	1726.88

The above position indicates that the performance of the Department in clearance of the paragraphs is minimal when compared to the addition of IR paragraphs each year.

### 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 5 years, those accepted by the Department and the amount recovered are given in the following table:

(₹ in crore)

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	Cummulative position of recovery of accepted cases
2005-06	08	0.87	08	0.84	-	0.02
2006-07	08	1.82	08	1.82	0.00	0.02
2007-08	07	5.11	07	4.26	0.42	0.44
2008-09	05	0.94	05	0.94	0.01	0.45
2009-10	05	0.89	05	0.89	0.00	0.45
<b>Total</b>	<b>33</b>	<b>9.63</b>	<b>33</b>	<b>8.75</b>	<b>0.43</b>	<b>-</b>

Thus, against the accepted cases involving ₹ 8.75 crore, the Departments/Govt. could recover only a sum of ₹ 0.43 crore. This shows that the Departments/Government did not recover the dues fully even in the cases where the audit observations had been accepted.

**The Department may consider taking action to install a mechanism to pursue and monitor prompt recovery of dues involved in the 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 audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which *inter alia* includes critical issues in Government revenues and tax administration i.e. budget speech, White Paper on State Finances, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of

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

During 2010-11, we conducted audit of 71 units audited out of 273 auditable units which is 26 *per cent* of the total auditable units.

## **1.5 Results of Audit**

### **1.5.1 Position of local audit conducted during the year**

Test-check of the records of 71 units of Commercial Tax, State Excise, Motor Vehicles and other Departmental offices conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating ₹ 68.92 crore in 300 cases. During the course of audit, the Departments concerned accepted underassessment and other deficiencies of ₹ 1.14 crore involved in 14 cases pointed out in 2010-11 and earlier years.

### **1.5.2 This Report**

This report contains seven paragraphs and three Performance Audits on “**Cross Verification of Declaration Forms in Inter State Trade or Commerce**”, “**Computerisation in Motor Vehicles Department**” and “**Assessment and Levy of Stamp Duty and Registration Fee**” involving revenue implication of ₹ 39.90 crore relating to short/non-levy of tax, duty, interest, penalty etc. The Departments/ Government have accepted audit observations involving ₹ 31.41 crore out of which ₹ 0.96 lakh has been recovered. The replies in the remaining cases have not been received (October 2011). These are discussed in the succeeding Chapters II to Chapter V.