

CHAPTER - I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Madhya Pradesh 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 during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)						
Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	Revenue raised by the State Government					
	• Tax revenue	10,473.13	12,017.64	13,613.50	17,272.77	21,419.33
	• Non-tax revenue	2,658.46	2,738.18	3,342.86	6,382.04	5,719.77
	Total	13,131.59	14,755.82	16,956.36	23,654.81	27,139.10
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	8,088.54	10,203.50	10,767.14	11,076.99	15,638.52 ¹
	• Grants-in-aid	4,474.15	5,729.41	5,853.71	6,662.87	9,076.56
	Total	12,562.69	15,932.91	16,620.85	17,739.86	24,715.08
3.	Total receipts of the State (1 and 2)	25,694.28	30,688.73	33,577.21	41,394.67	51,854.18
4.	Percentage of 1 to 3	51	48	50	57	52

The above table indicates that during the year 2010-11, the revenue raised by the State Government was 52 *per cent* of the total receipts (₹ 51,854.18 crore) against 57 *per cent* in the preceding year. The balance 48 *per cent* of 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 Madhya Pradesh for the year 2010-11. Figures under the head "Share of net proceeds assigned to States" booked in the Finance Accounts under A-Tax revenue have been excluded from the 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 from 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/VAT on sales, trade etc.	5,261.41	6,045.07	6,842.99	7,723.82	10,256.76	(+) 32.79
2.	State excise	1,546.68	1,853.83	2,301.95	2,951.94	3,603.42	(+) 22.07
3.	Stamp duty and Registration fee	1,251.10	1,531.54	1,479.29	1,783.15	2,514.27	(+) 41.00
4.	Taxes on goods and passengers	744.60	916.44	1,332.57	1,332.88	1,746.20	(+) 31.01
5.	Taxes on vehicles	634.30	702.62	772.56	919.01	1,198.38	(+) 30.40
6.	Taxes and duties on electricity	714.55	626.08	343.06	2,146.49	1,476.32	(-) 31.22
7.	Land revenue	132.21	129.15	338.84	180.03	360.81	(+) 100.42
8.	Other taxes on income and expenditure - taxes on professions, trades, callings and employments	163.81	185.02	172.29	203.92	217.89	(+) 6.85
9.	Other taxes and duties on commodities and services	19.55	20.10	20.28	19.21	29.42	(+) 53.15
10.	Hotel receipts	4.92	7.79	9.67	12.20	15.85	(+) 29.92
11.	Taxes on immovable property other than agricultural land	-	-	-	0.12	0.01	(-) 91.67
Total		10,473.13	12,017.64	13,613.50	17,272.77	21,419.33	

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

State excise- The increase of 22.07 *per cent* was due to increase in receipt of auction amount during auction of liquor shops.

Stamp duty & Registration fee- The abnormal increase of 41 *per cent* was attributed to the real estate sector emerging out of economic recession and increase in the number of documents registered. Under the Registration Act, 1908, the registration of Power of Attorney and sale contracts was made compulsory with effect from 14 January 2010 leading to increase in the number of documents as well as unexpected rise in revenue.

Taxes on vehicles- The increase of 30.40 *per cent* was attributed to increase in life-time tax and registration of more vehicles.

Taxes and duties on electricity- Revenue for the year 2008-09 was credited in the year 2009-10. As a result the revenue for the year 2009-10 stood inflated and thus the revenue for the year 2010-11 showed a declining trend of 31.22 *per cent*.

Other taxes and duties on commodities and services- The increase of 53.15 *per cent* was attributed to realisation of entertainment duty from DTH services by the Government.

The other Departments did not inform the reasons for variation (March 2012) despite being requested (April 2011).

1.1.3 The following table presents the details of major 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.	Non-ferrous mining and metallurgical industries	923.91	1,125.39	1,361.08	1,590.47	2,121.49	(+) 33.39
2.	Forestry and wildlife	536.50	608.89	685.60	802.00	836.61	(+) 4.32
3.	Miscellaneous general services	736.58	374.60	380.17	399.12	143.00	(-) 64.17
4.	Other non-tax receipts	159.30	220.17	580.56	2,068.46	1,900.94	(-) 8.10
5.	Interest receipts	132.73	206.98	163.29	1,284.03	298.56	(-) 76.75
6.	Other administrative services	59.55	68.15	55.58	80.94	85.14	(+) 5.19
7.	Major and medium irrigation	29.82	37.42	37.08	56.75	194.89	(+) 243.42
8.	Police	24.26	25.03	23.63	41.98	62.55	(+) 49.00
9.	Public works	16.39	20.33	21.74	27.37	36.77	(+) 34.34
10.	Medical and public health	20.88	21.93	20.88	21.84	22.77	(+) 4.26
11.	Co-operation	18.54	29.29	13.25	9.08	17.05	(+) 87.78
Total		2,658.46	2,738.18	3,342.86	6,382.04	5,719.77	

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

Non-ferrous mining and metallurgical industries- The increase of 33.39 *per cent* was attributed to recovery of outstanding amount under the M.P. Rural and Road Development Act from companies, constant vigil and monitoring by the Department and increase in royalty of minor minerals.

Major and medium irrigation- The increase of 243.42 *per cent* is mainly due to receipts from N.T.P.C. Singrauli under Chief Engineer, Ganga Kachar Water Resources Department in the year 2010-11.

Co-operation- The increase of 87.78 *per cent* was attributed to effective efforts of recovery of loans and interest.

The other departments did not inform the reasons for variation (March 2012) despite being requested (April 2011).

1.2 Response of the Departments/Government towards audit

The succeeding paragraphs 1.2.1 to 1.2.6 discuss the response of the Departments/Government towards audit observations/recommendations.

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

The Accountant General (Economic and Revenue Sector Audit), Madhya 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.

A review of inspection reports issued up to December 2010 disclosed that 13,285 paragraphs involving ₹ 9,355.55 crore relating to 3,690 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	6,201	5,040	3,690
Number of outstanding audit observations	19,731	15,608	13,285
Amount involved (₹ in crore)	5,319.01	9,862.06	9,355.55

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

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
(1)	(2)	(3)	(4)	(5)	(6)
1.	Commercial Tax	Taxes/VAT on sales, trade etc.	849	4,174	919.33
2.	Energy	Electricity duty	37	133	1,737.42
3.	State excise	Entertainment tax	174	350	19.94
		Excise duty	198	738	604.58

(1)	(2)	(3)	(4)	(5)	(6)
4.	Revenue	Land revenue	922	2,986	2,156.58
5.	Transport	Taxes on motor vehicles	372	1,903	322.89
6.	Stamps and registration	Stamp duty and registration fee	385	1,055	94.91
7.	Mines and geology	Royalty and rent	186	812	2,575.39
8.	Forest and environment	Forest produce receipts	319	531	747.30
9.	Food and civil supplies	Other non-tax receipts	95	243	24.60
10.	Agriculture		80	171	14.01
11.	Co-operative		73	189	138.60
Total			3,690	13,285	9,355.55

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 520 IRs issued up to 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 failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs. Although this was pointed out in the earlier report for the year ended 31 March 2010, no corrective measures were taken in this regard.

It is recommended that the Government 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 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 2010-11 and the paragraphs settled are mentioned below:

(₹ in crore)

Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
Commercial tax	4	411	34.53
Mining	2	134	110.36
Stamp duty and registration fees	4	369	25.19
State excise	2	136	35.84
Land revenue	2	516	140.85
Forest	3	129	101.77
Total	17	1,695	448.54

The table shows that the settlement of outstanding paragraphs has not been satisfactory in the case of Mining, State Excise and Forest Departments. This was mainly due to non-production of relevant records by the Departments during the audit committee meetings.

1.2.3 Non-production of records to audit for scrutiny

The programme of local audit of Commercial Tax, Motor Vehicle Tax, State Excise, Stamp duty and Registration fee, Land Revenue and Mining 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 2010-11, as many as 1,559 assessment files, registers and other relevant records relating to 104 offices were not made available to audit. In 550 cases, the tax involved was ₹ 284.89 crore and in the remaining cases the tax effect could not be computed. Year-wise break up of such cases are given below:

(₹ in crore)

Name of Department/ No. of offices	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained	Revenue involved
Commercial Tax/ 22	538	538	284.18
Stamps and Registration/ 15	31	1	0.50
Land Revenue/ 57	980	11	0.21
Mining/ 9	9	---	---
Co-operative Society/ 1	1	---	---
Total	1,559	550	284.89

1.2.4 Response of the Departments to the draft audit paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by us to the Principal Secretaries/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 Department is invariably indicated at the end of each paragraph included in the Audit Report.

Eighty eight paragraphs (clubbed into 68 paragraphs) included in this Report were sent to the Principal Secretaries/Secretaries of the concerned Departments. Their replies (except for three paragraphs of the Forest Department) have not been received (March 2012).

The paragraphs pertaining to these Departments have been included in this Report without the response of the Departments.

1.2.5 Follow up on Audit Reports-summarised position

The Report of the Comptroller & Auditor General of India for the year ended 31 March 2010 (Revenue Receipts) was laid on the table of *Vidhan Sabha* on 28 March 2011. Reports for the years upto 2005-06 and 2007-08 have been fully discussed and that for the year 2006-07 has been partly discussed by the Public Accounts Committee (PAC). The reports from 2008-09 onwards are yet to be discussed. The recommendations of the PAC have been received for Audit Reports pertaining to different years.

Action Taken Reports (ATR) on the PAC recommendations upto 1992-93 have been received. ATRs from 1993-94 to 2003-04 have been partly received and thereafter ATRs have not been received from the concerned Departments although the instructions of November 1994 issued by the State Legislature Affairs Department stipulate that these should be issued within six months from the date of recommendations by the PAC.

1.2.6 Compliance with the earlier Audit Reports

During the period from 2005-06 to 2009-10, the Departments/ Government accepted audit observations involving ₹ 1,798.84 crore of which only ₹ 15.58 crore was recovered till 31 March 2010 as mentioned below:

(₹ in crore)

Year of the Audit Report	Total money value of the Report	Accepted money value	Amount recovered	Percentage of recovery to amount accepted
2005-06	85.85	32.56	2.42	7.43
2006-07	318.57	288.61	1.93	0.67
2007-08	623.43	421.89	4.86	1.15
2008-09	1,339.50	112.89	3.11	2.76
2009-10	1,469.91	942.89	3.26	0.35
Total	3,837.26	1,798.84	15.58	

The percentage of recovery as compared to the accepted cases has been extremely low over the last five years. The Government may consider ensuring recovery at least in 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 each Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Mining Department** to deal with the cases detected in the course of local audit conducted during the last six 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 inspection reports issued during the last six years, paragraphs included in these reports and their status as on 31 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	Money Value	IRs	Para-graphs	Money Value
2005-06	284	806	575.33	26	136	226.81	55	199	40.30	255	743	761.84
2006-07	255	743	761.84	19	74	33.33	4	47	11.90	270	770	783.27
2007-08	270	770	783.27	21	85	90.06	6	58	70.16	285	797	803.17
2008-09	285	797	803.17	32	179	368.14	5	39	161.19	312	937	1,010.12
2009-10	312	937	1,010.12	41	268	1,824.35	61	211	181.12	292	994	2,653.35
2010-11	292	994	2,653.35	37	208	282.36	130	313	193.73	199	889	2,741.98

Out of 313 paragraphs cleared during the year 2010-11, 179 paragraphs were settled in the normal course on the basis of replies and the remaining 134 paragraphs were settled in Audit Committee meetings held with the Department.

1.3.2 Assurance 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 Reports of the last 10 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 including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2000-01	6	14.40	2	10.83	10.41	10.41
2001-02	6	44.96	10.41
2002-03	5	120.86	3	0.79	...	10.41
2003-04	7	19.76	3	2.46	...	10.41
2004-05	4	2.53	2	2.23	0.13	10.54
2005-06	6	2.16	1	0.13	...	10.54
2006-07	8	5.20	8	5.26	0.29	10.83
2007-08	1 (Review)	395.76	1	0.11	10.83
2008-09	8	102.93	1	1.53	1.01	11.84
2009-10	11	447.89	3	138.24	0.32	12.16

The percentage of recovery as compared to the accepted cases has been extremely low over the last ten years. We have brought (October 2011) this issue to the notice of the Department as well as the Government.

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

The draft performance audits conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These performance audits 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 paragraphs discuss the issues highlighted in a review on the Mining Department featured in the Audit Report 2007-08 including the recommendations and action taken by the Department on the recommendations accepted by it as well as the Government.

Year of AR	Name of the Review	Number of recommendations	Details of the recommendations accepted	Status
2007-08	Mining Receipt in Madhya Pradesh	5	3	The recommendations have been considered by the Government and action was being taken to implement the same.

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 2010-11, the audit universe comprised of 986 auditable units, of which 406 units were planned for audit and 398 units were audited, which is 40.37 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, three Performance audits 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 398 units of Commercial tax, State excise, Motor vehicles, Forest and other Departmental offices conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating

₹ 1,955.06 crore in 4,36,829 cases. During the course of the year, the Departments accepted underassessment and other deficiencies of ₹ 737.07 crore involved in 1,75,021 cases which were pointed out in audit during 2010-11. The Departments collected ₹ 70.50 crore in 31,204 cases during 2010-11.

1.5.2 This Report

This report contains 68 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 on "**Working of commercial tax check posts in Madhya Pradesh**", "**Utilisation of declaration forms in inter-state trade and commerce**" and "**Computerisation in motor vehicles department**" relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 291.79 crore. The Departments/Government have accepted audit observations involving ₹ 110.29 crore out of which ₹ 1.99 crore has been recovered. The replies in the remaining cases have not been received (March 2012). These are discussed in the succeeding chapters II to X.