

## CHAPTER-I GENERAL

### 1.1 Trend of revenue receipts

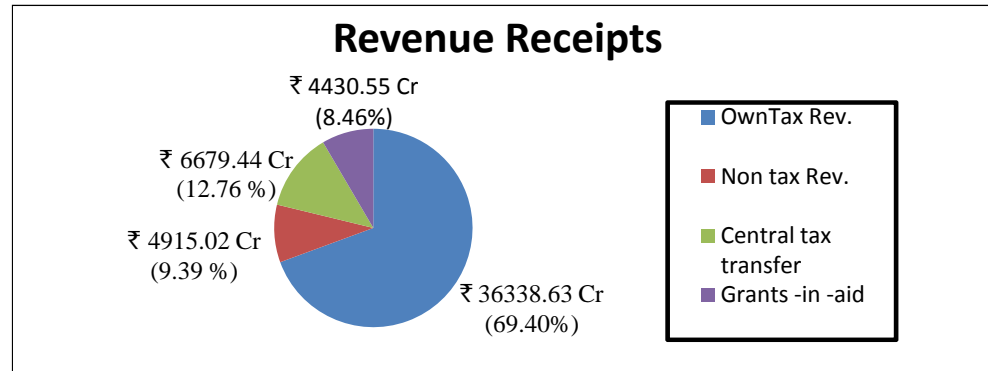
**1.1.1** The tax and non-tax revenue raised by the Government of Gujarat during the year 2010-11, the State's share of net proceeds of divisible Union Taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. no.	Particular	2006-07	2007-08	2008-09	2009-10	2010-11
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	18,464.63	21,885.57	23,557.03	26,740.23	36,338.63
	• Non-tax revenue	4,948.78	4,609.31	5,099.32	5,451.71	4,915.02
	<b>Total</b>	<b>23,413.41</b>	<b>26,494.88</b>	<b>28,656.35</b>	<b>32,191.94</b>	<b>41,253.65</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	4,425.95	5,426.09	5,725.86	5,890.92	6,679.44
	• Grants-in-aid	3,162.86	3,768.88	4,293.50	3,589.50	4,430.55
	<b>Total</b>	<b>7,588.81</b>	<b>9,194.97</b>	<b>10,019.36</b>	<b>9,480.42</b>	<b>11,109.99</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>31,002.22</b>	<b>35,689.85</b>	<b>38,675.71</b>	<b>41,672.36</b>	<b>52,363.64<sup>1</sup></b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>76</b>	<b>74</b>	<b>74</b>	<b>77</b>	<b>79</b>

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 41,254 crore) was 79 *per cent* of the total revenue receipts against 77 *per cent* in the preceding year. The balance 21 *per cent* of the receipts during 2010-11 was from the Government of India.

<sup>1</sup> For details, please see statement No. 11, Detailed Accounts of revenue by minor heads in the Finance Accounts of the Government of Gujarat for the year 2010-11. Figures under the 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, 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 from 2006-07 to 2010-11.

(₹ in crore)

Sl. no.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Sales tax/VAT	10,886.21	13,199.04	15,143.86	15,651.20	2,0226.78	(+) 29.23
	Central sales tax	1,931.25	1,905.50	1,666.79	2,548.59	4,666.68	(+) 83.11
2.	Taxes and duties on electricity	2,087.77	2,046.52	2,369.91	2,643.65	3,262.64	(+) 23.41
3.	Stamp duty and registration fees	1,425.03	2,018.43	1,728.50	2,556.72	3,666.24	(+) 43.40
4.	Land revenue	498.71	683.09	543.50	1,161.20	1,788.78	(+) 54.05
5.	Taxes on vehicles	1,191.15	1,310.09	1,381.66	1,542.64	2,003.68	(+) 29.89
6.	Taxes on goods and passengers	5.96	151.62	169.35	6.91	6.38	(-) 7.67
7.	State excise	41.94	47.20	48.71	65.94	62.97	(-) 4.50
8.	Other taxes on income and expenditure	131.07	149.67	185.84	196.87	228.22	(+) 15.92
9.	Other taxes	265.54	374.41	318.91	366.51	426.26	(+) 16.30
	<b>Total</b>	<b>18,464.63</b>	<b>21,885.57</b>	<b>23,557.03</b>	<b>26,740.23</b>	<b>36,338.63</b>	<b>(+) 35.89</b>

The reasons for variations wherever substantial, though called for in June 2011, were not reported (October 2011) by the concerned Departments.

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

(₹ in crore)

Sl. no.	Heads of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+) or decrease (-) in 2010-11 over 2009-10
1.	Non-ferrous mining and metallurgical industries	2,173.76	2,082.14	1,559.82	2,138.98	2,019.31	(-) 5.59
2.	Interest receipts	283.07	329.88	567.81	419.44	403.88	(-) 3.70
3.	Major and medium irrigation	330.61	452.82	455.77	504.61	618.14	(+) 22.50
4.	Miscellaneous general services	968.96	588.53	643.29	847.14	62.29	(-) 92.65
5.	Other administrative services	36.57	47.93	189.44	110.80	41.11	(-) 62.90
6.	Police	90.66	86.24	77.44	101.45	149.08	(+) 46.95
7.	Medical and public health	66.68	66.25	126.50	62.40	118.11	(+) 89.28
8.	Public works	30.64	27.19	31.69	51.06	36.71	(-) 28.10
9.	Forestry and wild life	36.91	35.08	40.51	39.76	45.22	(+) 13.73
10.	Other non-tax receipts	930.92	893.25	1,407.05	1176.07	1421.17	(+) 20.84
<b>Total</b>		<b>4,948.78</b>	<b>4,609.31</b>	<b>5,099.32</b>	<b>5,451.71</b>	<b>4,915.02</b>	<b>(-) 9.84</b>

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

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

In the following paragraphs from 1.2.1 to 1.2.6, response of the Departments/Government towards various aspects related to audit process has been discussed.

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

Principal Accountant General (Commercial and Receipt Audit) Gujarat, Ahmedabad (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 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 receipt of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection reports issued upto December 2010 disclosed that 14,100 paragraphs involving ₹ 8,718.32 crore relating to 4,535 IRs remained outstanding at the end of June 2011 as mentioned below alongwith the corresponding figures for the preceding two years.

Particulars	As at the end of		
	June 2009	June 2010	June 2011
Number of outstanding inspection reports	4,035	4,374	4,535
Number of outstanding audit observations	11,426	12,998	14,100
Amount of revenue involved (₹ in crore)	4,987.77	7,290.79	8,718.32

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

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.	1,484	5,901	2,989.01
		Professional Tax	16	27	0.05
2	Home	State excise	12	16	0.28
3	Revenue	Land revenue	431	989	405.03
4	Ports and Transport	Taxes on motor vehicles	391	1,559	1,076.42
5	Revenue	Stamp duty and registration fees	1,075	3,141	1,377.49
		Valuation of property	190	403	51.99
6	Industries and Mines	Geology and Mining	252	728	446.11
		Director of Petroleum	4	30	2,022.51
7	Energy and Petrochemicals	Electricity duty	57	89	148.14

8	Forest and environment	Forestry and wild life	61	101	9.51
9	Information and Broadcasting	Entertainments tax, luxury tax, etc.	562	1,116	191.78
<b>Total</b>			<b>4,535</b>	<b>14,100</b>	<b>8,718.32</b>

Even the first replies required to be received from the heads of office within one month from the date of receipt of the IRs were not received for 214 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 PAG in the IRs.

**We recommend that the Government may take suitable steps to implement an effective procedure for prompt and appropriate response to audit observations as well as take action against officials /officers who failed to send replies to the IRs/paragraphs as per the prescribed time schedules and also failed to take action to recover 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)

Sl. no.	Name of the Department/Head of revenue	No. of meetings held	No. of IRs/paragraphs settled		Amount
			IRs	Paragraphs	
1.	Finance (Sales tax/VAT)	2	1	67	4.67
2.	Ports and Transport (Motor vehicles tax)	1	3	176	94.00
3.	Land Revenue	1	12	39	3.58
4.	Geology and Mining	1	18	226	36.49
5.	Valuation of Property	1	29	119	4.21
6.	Forest and Environment	1	42	92	0.36

It could be seen from the above paragraph that though the amount of the outstanding observations had increased from ₹ 7290.79 crore to ₹ 8718.32 crore i.e. increase of 19.58 *per cent*, only seven meetings were held during the year.

Considering the large pendency of IRs and audit paragraphs, the Departments need to hold more audit committee meetings to clear the outstanding paragraphs.

### 1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of all the Departments 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, 10,113 tax assessment records relating to 85 Commercial tax offices were not made available to audit, which included 5,903 cases which were not produced during previous years. The tax effect was not available with the assessing authority. 3,722 documents relating to Stamp Duty and Registration Fees in one office were not made available to us. Details of the cases are mentioned below:

Sl. No.	Name of Office	No. of units	Year in which it was to be audited	Number of assessment cases/documents not produced
1.	Commercial Tax Offices	85	2006-07 to 2010-11	10,113
2.	Sub-Registrar Office III (Navagam), Surat	01	2007 to 2009	3722
3.	Collector (ET), Mehsana	01	2007-08 to 2009-10	Entertainment Tax records i.e. Form-III and Form 17 relating to one cinema.

### 1.2.4 Response of the Departments to the draft audit paragraphs

According to the hand book of instructions for speedy settlement of draft paragraphs issued by the Finance Department on 12 March 1992, results of verification of facts contained in the draft paragraphs are required to be communicated to the Accountant General (AG) within six weeks from the date of their receipt. In exceptional cases where it is not possible to furnish the final reply to the draft paragraph within the above time limit, an interim reply should be given to the AG.

Fifty seven draft paragraphs (clubbed into 50 paragraphs) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2011 (Revenue Receipts) Government of Gujarat were forwarded to the Secretaries of the respective Departments between May and November 2011 through demi-official letters. The Secretaries of the respective Departments replied to 41 draft paragraphs. Out of 41 paragraphs 15 draft paragraphs were replied partially. The paragraphs of the reviews have been included in this report after incorporating the response of the Secretaries of the concerned Departments, wherever received.

### 1.2.5 Follow up on Audit Reports - summarised position

As per instructions issued by the Finance Department on 12 March 1992, administrative Departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports (AR) within three months of presentation of the ARs to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

The AR for the years 2008-09 was presented to the State Legislature on 30 March 2010. Explanatory notes in respect of paragraphs included in AR 2008-09 were not yet furnished by the Departments as mentioned below (October 2011).

Name of the Department	2008-09 (Paragraphs)	2008-09 (Sub paragraphs- Reviews)	Total
<b>Finance</b> (Sales tax/VAT)	08	11	19
<b>Revenue</b> (Stamp duty)	12	--	12
(Land revenue)	5	--	5
<b>Ports and Transport</b> (Motor vehicles tax)	2	12	14
<b>Information and Broadcasting</b> (Entertainments tax)	4	--	4
(Luxury tax)	1	--	1
<b>Industries and Mines</b> (Mining receipts)	--	11	11
<b>Energy and Petrochemicals</b> (Mining receipts)	--	11	11
(Electricity Duty)	2	--	2
<b>Total</b>	<b>34</b>	<b>45</b>	<b>79</b>

### 1.2.6 Compliance with the earlier Audit Reports

During the years between 2005-06 and 2009-10, the Departments/Government accepted audit observations involving ₹ 647.94 crore of which an amount of ₹ 46.87 crore had been recovered till 31 March 2011 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made*
2005-06	441.53	427.76	16.55
2006-07	94.53	23.84	5.67
2007-08	304.96	86.28	10.60
2008-09	5,743.47	46.98	4.48
2009-10	352.04	63.08	9.57
<b>Total</b>	<b>6936.53</b>	<b>647.94</b>	<b>46.87</b>

\* Amount recovered as shown above includes recovery effected by Commercial Tax, MVT, SD & RF, Entertainment Tax, Luxury Tax and GMR Departments. Despite repeated reminders and pursuance at all levels, recovery effected by Land Revenue, and Electricity Duty has not been received (October 2011).

The recovery in respect of the accepted cases was meagre (seven *per cent* of the accepted money value).

**We recommend the Government to advise the concerned Departments to take necessary steps for speedy recovery at least in those cases/ paragraphs which have been accepted by the concerned Departments in the interest of revenue.**

### **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 Geology and Mining 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 Geology and Mining 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 2006-07 to 2010-11.

#### **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 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 <sup>2</sup>	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2006-07	173	485	310.26	21	77	3.40	1	12	0.54	193	550	313.12
2007-08	193	550	313.12	19	84	46.91	3	3	0.01	209	631	360.02
2008-09	209	631	360.02	18	103	28.69	0	1	0.08	227	733	388.63
2009-10	227	733	388.63	30	153	81.26	1	6	0.17	256	880	469.72
2010-11	256	880	469.72	17	101	14.91	18	229	36.53	255	752	448.10

There was continuous increase in the number (except in 2010-11) and money value of the objections as at the end of the year from 2006-07 to 2010-11. This indicates failure of the Department to take timely action on the audit objections. During five years period from 2006-07 to 2010-11, Geology and Mining Department conducted one ACM and settled 226 paragraphs and 18 IRs involving money value of ₹ 36.49 crore. The efforts made to settle the paragraphs in 2010-11 need to be continued in future.

### 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 in the following table:

Year of AR	Number of paragraphs included	Money value of the paragraphs (₹ in crore)	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year 2010-11 (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2005-06	2	13.14	13.14	3.20	11.42
2006-07	1	3.34	2.18	1.77	2.73
2007-08	1	1.41	1.29	0.45	0.80
2008-09	1	627.63	524.81	0.00	0.00
2009-10	7	19.15	18.45	1.67	7.02
<b>Total</b>	<b>12</b>	<b>664.67</b>	<b>559.87</b>	<b>7.09</b>	<b>21.97</b>

Out of observations of ₹ 559.87 crore accepted, the Department recovered an amount of ₹ 21.97 crore during the period of five years which was very low (3.92 per cent of accepted amount of observations).

<sup>2</sup> Includes only those observations which were not included in Audit Reports.

**We recommend the Department to consider taking effective steps to recover the amount of accepted money value utilising the powers conferred by Act/Rules of Geology and Mining for recovery of tax and speed up the 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/Government's views are included while finalising the reviews for the Audit Reports.

The following paragraphs discuss the issues highlighted in the reviews on the Geology and Mining Department featured in Audit Reports of the last five years including the recommendations and action taken by the Department on the recommendations accepted by it as well as by the Government.

Year of AR	Name of the review	Number of recommendations	Details of the recommendations accepted	Status
2008-09	Levy and collection of royalty dead rent and surface rent from mines and quarries	Seven	--	The rates of yearly surface rent were revised at non-agricultural assessment rates vide notification dated 27.8.2010 by Industries and Mines Department (Para 7.2.9)

The Department/Government had accepted the recommendations of the review which appeared in the report of the Comptroller and Auditor General of India for the year 2008-09 and accordingly the rates of yearly surface rent were revised @ non-agricultural assessment rates vide Government of Gujarat (Industries and Mines) notification dated 27 August 2010.

### **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 past five years etc.

During the year 2010-11, the audit universe comprised of 962 auditable units, of which 305 units were planned and audited during the year, which is 31.7 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, three performance reviews and one Information Technology review 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 305 units of commercial tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts, forest receipts and other non-tax receipts conducted during the year 2010-11 revealed under assessment/short levy/loss of revenue amounting to ₹ 1453.75 crore in 1804 cases. During the course of the year, the concerned Departments accepted under assessments and other irregularities of ₹ 610.38 crore in 408 cases of which 41 cases involving ₹ 237.03 crore were pointed out in audit during the year 2010-11 and the rest in the earlier years. Department collected ₹ 17.77 crore in 318 cases in 2010-11.

### **1.5.2 This Report**

This report contains 50 paragraphs including four performance audits on (i) "Performance Audit on declaration forms in inter-State trade or commerce", (ii) "Collection of Stamp Duty and Registration Fees" (iii) "Working of Electricity Duty Department" and (iv) "Computerisation in Motor Vehicles Department" relating to short/non levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 462.98 crore. The Departments/Government have accepted audit observations involving ₹ 88.96 crore out of which ₹ 13.07 crore has been recovered. The replies in the remaining cases have not been received (October 2011). These are discussed in succeeding Chapters II to VII.

