

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 2011-12, 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 preceding four years are mentioned below:-

(₹ in crore)

Sr. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Revenue raised by the State Government					
	• Tax revenue	11,617.82	11,655.28	13,219.50	16,790.37	20,399.46
	• Non-tax revenue	5,097.08	3,238.45	2,741.40	3,420.94	4,721.65
	Total	16,714.90	14,893.73	15,960.90	20,211.31	25,121.11
2.	Receipts from the GOI					
	• Share of net proceeds of divisible Union taxes and duties ¹	1,634.36	1,724.62	1,774.47	2,301.75	2,681.55
	• Grants-in-aid	1,401.48	1,833.96	3,257.29	3,050.62	2,754.93
	Total	3,035.84	3,558.58	5,031.76	5,352.37	5,436.48
3.	Total revenue receipts of the State Government (1 and 2)	19,750.74	18,452.31	20,992.66	25,563.68	30,557.59
4.	Percentage of 1 to 3	85	81	76	79	82

The above table indicates that during the year 2011-12, the revenue raised by the State Government (₹ 25,121.11 crore) was 82 *per cent* of the total revenue receipts as against 79 *per cent* in the preceding year. The balance 18 *per cent* of receipts during the year 2011-12 was from the GOI.

The increase of ₹ 4,993.91 crore (20 *per cent*) in revenue receipts in 2011-12 over the previous year was on account of increase in the State's own share of tax and non-tax revenue of ₹ 4,909.80 crore (24 *per cent*).

The decrease of ₹ 295.69 crore (10 *per cent*) in grants in-aid in 2011-12 over the previous year was mainly on account of decrease State plan grants of ₹ 75.20 crore (10 *per cent*) and non-plan grants of ₹ 519.47 crore (29 *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 2011-12. 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.

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1.1.2 The following table presents the details of tax revenue raised during the period 2007-08 to 2011-12:

(₹ in crore)

Sr. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase(+)/ decrease(-) in 2011-12 over 2010-11
1.	Taxes on sales, trade etc./value added tax (VAT)	7,720.98	8,154.73	9,032.37	11,082.01	13,383.69	(+) 21
2.	State excise	1,378.81	1,418.53	2,059.02	2,365.81	2,831.89	(+) 20
3.	Stamps and registration fees						
	Stamps – judicial	91.37	1,030.90	945.91	848.09	99.76	(-) 88
	Stamps – non-judicial	1,651.94	267.27	341.86	1,450.33	2,646.35	(+) 82
	Registration fees	19.97	28.22	5.79	20.86	46.89	(+) 125
4.	Taxes on goods and passengers	379.39	370.29	391.45	387.14	429.32	(+) 11
5.	Taxes on vehicles	233.79	239.30	277.07	457.36	740.15	(+) 62
6.	Taxes and duties on electricity	107.45	106.31	119.58	130.27	166.43	(+) 28
7.	Land revenue	9.38	8.58	9.43	10.02	10.95	(+) 9
8.	Other taxes and duties on commodities and services	24.74	31.15	37.02	38.48	44.03	(+) 14
	Total	11,617.82	11,655.28	13,219.50	16,790.37	20,399.46	(+) 21

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

- **Taxes on sales, trade / value added tax (VAT):** The increase in revenue receipts (21 *per cent*) was mainly due to Gross Domestic Product (GDP) growth and inflation. However, large variations were due to buoyancy in economy.
- **State Excise:** The increase in revenue receipts (20 *per cent*) was mainly due to increase in license fee of country liquor (CL) and Indian made foreign Liquor (IMFL) and also due to better formulation and implementation of Excise Policy.
- **Stamp duty and registration fee:** The increase in revenue receipts was mainly due to increase in number of transactions of immovable property.

- **Taxes on vehicles:** The increase in revenue receipts (62 per cent) was due to mobilisation of additional resources by making good efforts to realise tax.
- **Taxes and duties on electricity:** The increase in revenue receipts (28 per cent) was mainly due to enhanced realisation of electricity duty from the consumers by the Power Utilities.

1.1.3 The following table presents the details of non-tax revenue raised during the period 2007-08 to 2011-12:

(₹ in crore)

Sr. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase(+)/decrease(-) in 2011-12 over 2010-11
1.	Urban development	2,805.24	884.50	133.70	974.54	1,039.35	(+) 7
2.	Interest receipts	757.20	776.28	667.88	689.34	864.96 ²	(+) 25
3.	Road transport	622.56	645.04	699.57	761.72	852.96	(+) 12
4.	Non-ferrous mining and metallurgical industries	215.74	195.97	247.49	82.59	75.53	(-) 9
5.	Other administrative services	105.54	120.95	96.81	115.63	99.95	(-) 14
6.	Miscellaneous general services	91.25	89.39	95.93	(-) 9.75 ³	128.49	(+) 1,417
7.	Major and medium irrigation	72.27	74.01	218.56	202.26	583.16	(+) 188
8.	Education, sports, art and culture	117.70	156.10	285.10	270.37	295.72	(+) 9
9.	Police	41.44	55.22	35.11	61.53	62.64	(+) 2
10.	Forestry and wildlife	33.79	40.74	56.13	44.32	39.12	(-) 12
11.	Medical and public health	64.91	30.94	30.23	47.06	54.79	(+) 16
12.	Other non-tax receipts	169.44	169.31	174.89	181.33	624.98	(+) 245
Total		5,097.08	3,238.45	2,741.40	3,420.94	4,721.65	(+) 38

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

² Includes ₹ 413.94 crore as book adjustment of interest on irrigation project capital interest.

³ Due to more refunds than receipts.

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- **Interest receipts:** The increase in revenue receipts (25 per cent) was due to enhanced receipt from Departmental Commercial Undertakings.
- **Miscellaneous General Services:** The increase in revenue receipts (1,417 per cent) was due to receipt of debt relief from Central Government.
- **Major and medium Irrigation:** The increase in revenue receipts was due to wrong booking under medium Irrigation schemes.

The other Departments did not inform the reasons for variations, despite being requested (August 2012).

1.2 Variation between the budget estimates and actuals

The variation between the budget estimates of revenue receipts and the actual receipts under the principal heads of tax and non-tax revenue for the year 2011-12 is mentioned below:

(₹ in crore)

Sr. No.	Revenue head	Budget estimates	Actual receipts	Variation increase (+)/ decrease (-)	Percentage
• Tax revenue					
1.	Taxes/VAT on sales, trade etc.	14,100.00	13,383.69	(-) 716.31	(-) 05
2.	State excise	2,400.00	2,831.89	(+) 431.89	(+) 18
3.	Stamp duty and registration fees	2,350.00	2,793.00	(+) 443	(+) 19
4.	Taxes on vehicles	515.00	740.15	(+) 225.15	(+) 44
5.	Taxes and duties on electricity	155.00	166.43	(+) 11.43	(+) 07
6.	Land revenue	16.09	10.95	(-) 5.14	(-) 32
7.	Other taxes and duties on commodities and services	45.80	44.03	(-) 1.77	(-) 04
8.	Taxes on goods and passengers – Tax on entry of goods into local area	425.00	429.32	(+) 4.32	(+) 01
• Non-tax revenue					
1.	Non-ferrous mining and metallurgical industries	75.00	75.53	(+) 0.53	(+) 01
2.	Forestry and wildlife	61.00	39.12	(-) 21.88	(-) 36
3.	Water rates (medium irrigation)	6.44	7.44	(+) 1.00	(+) 16
4.	Interest receipts	816.49	864.96	(+) 48.47	(+) 6
5.	Urban development	1,300.00	1,039.35	(-) 260.65	(-) 20
6.	Police	71.42	62.64	(-) 8.78	(-) 12
7.	Medical and public health	102.99	54.79	(-) 48.20	(-) 47
8.	Public works	14.10	7.84	(-) 6.26	(-) 44

The reasons for variations between the budget estimates and actual receipts as

furnished by the departments are mentioned below:

- **Stamp duty and registration fee:** The increase in revenue receipts (19 per cent) was due to increase in transaction of immovable property.
- **Taxes on vehicles:** The increase in revenue receipts (44 per cent) was due to mobilisation of additional resources and by making good efforts to realise tax.
- **Taxes and duties on electricity:** The increase in revenue receipts (seven per cent) was due to enhanced realisation of electricity duty from the consumers by the Power Utilities.
- **Land revenue:** The decrease in revenue receipts (32 per cent) was due to less recovery of mutation fee, copying fee and revenue talbana⁴.
- **Forestry and wildlife:** The decrease in revenue receipts (36 per cent) was due to non-cutting of trees.

The other departments did not inform (September 2012) the reasons for variation in actual receipts from that of the budget estimates despite being requested (August 2012).

1.3 Cost of collection of major revenue receipts

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the years 2009-10 to 2011-12 along with the relevant all India average, percentage of expenditure of collection to gross collection for 2010-11 are mentioned below:

(₹ in crore)

Sr. No.	Head of revenue	Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage for the year 2010-11
1.	Taxes/VAT on sales, trade etc.	2009-10	9,032.37	78.48	0.87	0.75
		2010-11	11,082.01	87.82	0.79	
		2011-12	13,383.69	87.65	0.65	
2.	State excise	2009-10	2,059.02	20.48	0.99	3.05
		2010-11	2,365.81	21.57	0.91	
		2011-12	2,831.89	22.39	0.79	
3.	Stamp duty and registration fee	2009-10	1,293.56	13.72	1.06	1.60
		2010-11	2,319.28	11.39	0.49	
		2011-12	2,793.00	11.57	0.41	
4.	Taxes on vehicles	2009-10	277.07	11.32	4.08	3.71
		2010-11	457.36	13.38	2.93	
		2011-12	740.15	13.07	1.77	

Source: Finance Accounts.

⁴ Charges for serving summons.

1.4 Analysis of arrears of revenue in terms of total outstanding and outstanding for more than 5 years

The arrears of revenue as on 31 March 2012 in respect of some principal heads of revenue as reported by the departments was ₹ 3,982.60 crore of which ₹ 2,864.27 crore were outstanding for more than five years as mentioned below:

(₹ in crore)

Sr. No.	Heads of revenue	Amount outstanding as on 31 March 2012	Amount outstanding for more than five years as on 31 March 2012	Remarks
1.	Taxes on sales, trade/VAT etc.	3,405.08	2,583.52	Recovery of ₹ 600.03 crore were stayed by the High Court and other judicial authorities, ₹ 8.89 crore was stayed due to the order of the Government. ₹ 22.01 crore were held up due to the dealers becoming insolvent, ₹ 36.03 crore were proposed to be written off, ₹ 224.35 crore were held up due to rectification, review and appeal. Recovery of ₹ 133.00 crore was outstanding due to cases pending with the official liquidator/Board of Industrial and Financial Reconstruction (BIFR). Recovery of ₹ 18.20 crore was being made in instalments. Balance amount of ₹ 2,362.57 crore was at different stages of action.
2.	State excise	119.19	76.53	Recovery of ₹ 12.59 crore were stayed by the High Court and other judicial authorities, ₹ 69.04 lakh was likely to be written off. Recovery of ₹ 1.98 crore was outstanding due to cases pending with the official liquidator/BIFR. Recovery of ₹ 3.94 crore was being made in instalments. ₹ 15.66 crore and ₹ 9.72 crore were due to Inter State and Inter district arrears respectively. Balance amount of ₹ 74.61 crore was outstanding at different stages of action.
3.	Taxes and duties on electricity	129.28	80.66	₹ 1 crore was recoverable from M/s Haryana Concast, Hisar, ₹ 38 lakh from M/s Rama Fibers, Bhiwani; ₹ 30 lakh from M/s Dadri Cements, Charkhi Dadri and ₹ 16 lakh from M/s Competent Alloys, Ballabgarh. The remaining amount of ₹ 127.44 crore was pending towards the consumers of Dakshin Haryana Bijli Vitran Nigam Limited (DHBVNL)/Uttar Haryana Bijli Vitran Nigam Limited (UHBVNL).

Sr. No.	Heads of revenue	Amount outstanding as on 31 March 2012	Amount outstanding for more than five years as on 31 March 2012	Remarks
4.	• Taxes on goods and passengers	60.18	15.29	An amount of ₹ 0.27 lakh was written off and balance ₹ 60.18 crore was outstanding at different stage of action.
	• Tax on entry of goods into local areas (Local Area Development Tax)	208.86	83.54	Recovery of ₹ 136.48 crore were stayed by the High Court, judicial and departmental authorities Recovery of ₹ 4.47 lakh was outstanding due to cases pending with the liquidator/BIFR. Recovery of ₹ 1.65 lakh was being made in instalments. Balance amount of ₹ 72.32 crore was outstanding at different stages of action.
5.	Police	13.72	8.22	Recovery of ₹ 7.38 crore was outstanding from Indian Oil Corporation. Recovery of ₹ 5.50 crore was outstanding from eight ⁵ States, remaining amount of ₹ 28 lakh was recoverable from Thermal Plant, Faridabad. Amount of ₹ 5.75 lakh was recoverable from Kumbh Mela Haridwar and arrear of ₹ 49.65 lakh was recoverable in West Bengal, Punjab and U.P. and Gujrat for Law and order.
6.	Other taxes and duties on commodities and service			
	• Receipt under the Sugarcane (Regulation, Supply and Purchase Control) Act	13.33	0.61	Four sugar mills (Bhadson: ₹ 5.07 crore, Naraingarh: ₹ 4.68 crore, Panipat: ₹ 3.20 crore and Yamunanagar: ₹ 0.38 crore) did not deposit the tax.
	• Receipts under entertainment duty and show tax	10.14	9.57	Recovery of ₹ 17.91 lakh had been stayed by the High Court and other judicial authorities, ₹ 1.26 lakh were likely to be written off. Balance amount of ₹ 9.95 crore was at the different stages of action.

⁵ Chattisgarh (₹ 1.41 crore), Gujarat (₹ 0.44 crore), Himachal Pradesh (₹ 0.40 crore), Jharkhand (₹ 0.08 crore), Kerala (₹ 0.02 crore), Madhya Pradesh (₹ 0.44 crore), Rajasthan (₹ 0.59 crore) and Uttar Pradesh (₹ 2.12 crore).

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Sr. No.	Heads of revenue	Amount outstanding as on 31 March 2012	Amount outstanding for more than five years as on 31 March 2012	Remarks
7.	Non-ferrous mining and metallurgical industries	22.82	6.33	Demands of ₹ 9.88 crore were covered by recovery certificates. Recoveries of ₹ 5.50 crore were stayed by the High Court and other judicial authorities. ₹ two lakh was likely to be written off. ₹ 2.27 crore were due as Inter State and Inter district arrears. ₹ 5.15 crore was outstanding at different stages of action.
	Total	3,982.60	2,864.27	

The position of arrears of revenue at the end of 2011-12 in respect of other departments were not furnished (October 2012) despite being requested (August 2012).

1.5 Analysis of collection

The break-up of the total collection at the pre-assessment stage and after regular assessments of sales tax/VAT cases during the year 2011-12 and the corresponding figures for the preceding four years as furnished by the Excise and Taxation Department are mentioned below:

(₹ in crore)

Head of revenue	Year	Amount collected at pre-assessment stage	Amount collected after regular assessment	Penalty for delay in payment of taxes and duties	Amount refunded	Net collection as per department	Net collection as per Finance Account	Percentage of column 3 to 8
1	2	3	4	5	6	7	8	9
Taxes/VAT on sales, trade etc.	2007-08	7,223.15	722.01	1.59	81.15	7,865.60	7720.98	94
	2008-09	8,132.08	470.14	58.28	101.34	8,559.16	8154.73	100
	2009-10	9,973.05	393.21	1.24	133.09	10,234.41	9,032.37	110
	2010-11	11,224.83	2,022.92	1.17	623.04	12,625.88	11,082.01	101
	2011-12	14,286.78	417.66	7.48	603.72	14,108.20	13,383.69	107

1.6 Evasion of tax

The details of cases of evasion of tax detected by the Excise and Taxation Department, cases finalised and demands raised as reported by the department concerned are mentioned below:

Heads of department	Cases pending as on 31 March 2011	Cases detected during 2011-12	Total (2+3)	Number of cases in which assessments/ investigation completed and additional demand including penalty etc. raised during the year 2011-12		Number of pending cases as on 31 March 2012
				No. of cases	(₹ in lakh)	
Taxes on sales, trade/ VAT etc.	97	2,135	2,232	2,177	442.75	55
State excise	823	2,717	3,540	2,719	86.91	821
Taxes on goods and passengers	903	9,297	10,200	9,047	709.87	1,153

The other departments did not furnish the details (October 2012), despite being requested (August 2012).

1.7 Refunds

The number of refund cases pending at the beginning of year 2011-12, claims received during the year, refunds allowed during the year and cases pending at the close of the year (March 2012), as reported by the concerned departments are mentioned below:

(₹ in crore)

Sr. No.	Particulars of claims	Sales tax		State excise	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	610	371.77	13	0.06
2.	Claims received during the year	3,169	478.78	861	10.86
3.	Refunds made during the year	3,395	743.31	862	10.77
4.	Balance outstanding at the end of the year	384	107.24	12	0.15

1.8 Response of the Government departments towards Audit

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

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

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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 2011 disclosed that 4,507 paragraphs involving ₹ 1,023.95 crore relating to 2,268 IRs remained outstanding at the end of June 2012 as mentioned below along with the corresponding figures for the preceding two years.

	June 2010	June 2011	June 2012
Number of outstanding IRs	2,460	2,313	2,268
Number of outstanding audit observations	5,122	4,734	4,507
Amount involved (₹ in crore)	1,507.03	1,484.56	1,023.95

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 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	274	1,271	740.44
		State excise	93	152	50.36
		Taxes on goods and passengers	134	256	20.15
		Entertainment duty and show tax	16	18	10.90
2.	Revenue	Stamps and registration fees	729	1,513	53.34
		Land revenue	120	182	0.51
3.	Transport	Taxes on vehicles	281	379	8.64
4.	Power	Taxes and duties on electricity	5	5	0.33
5.	Agriculture (Sugarcane)	Purchase tax on sugarcane	31	33	24.68

Sr. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
6.	Home (Police)	Receipts of cost of police deployed to other Governments/ Railways etc.	51	56	18.25
7.	Mines and Geology	Non-ferrous mining and metallurgical industries	100	133	14.59
8.	Other Departments	Miscellaneous receipts	434	509	81.76
Total			2,268	4,507	1,023.95

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 for 114 IRs issued upto December 2011. 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 put in place 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 also those who fail to take action to recover loss/outstanding demand in a time bound manner.

1.8.2 Departmental Audit Committee Meetings

The Government set up audit committees in September 1985 to monitor and expedite the progress of the settlement of IRs including paragraphs. 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 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 2011-12.

The details of the audit committee meetings held during the year 2011-12 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)
Stamp Duty	2	60 (240)	0.64 (1.85)
Taxes on sales, trade etc./VAT	4	130 (279)	37.81 (135.77)
Total	6	190 (519)	38.45 (137.62)

During the year 2011-12, only two out of nine departments dealing with nine 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.

1.8.3 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 2011-12, 422 VAT assessment cases pertaining to three DETCs were not made available to audit. Thus, VAT assessment cases involving revenue of ₹ 182.74 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)	2011-12	338	338	110.29
Faridabad (West)	2011-12	74	74	70.78
Panipat	2011-12	10	10	1.67
Total		422	422	182.74

1.8.4 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.

18 draft paragraphs and two Performance Audit included in the Audit Report (Revenue Sector) for the year ended 31 March 2012 were forwarded to the Secretaries of the Departments concerned during April to September 2012 through demi-official letters. However, no reply was received.

1.8.5 Follow up on the 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 required to initiate suo moto positive and concrete action on all paragraphs and performance audits featuring in the Audit Report (Revenue Sector) regardless of the fact that the cases were taken up for examination by the PAC or not. They were also required 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 2012 has been mentioned in **Annexure I**. One hundred nineteen (119) paragraphs pertaining to the period 2006-07 to 2010-11 were pending for discussion by the PAC. The Administrative Departments failed to submit action taken notes (ATNs) in respect of 40 out of 119 paragraphs within three months from the date of presentation⁶ of the Audit Reports to the Legislature.

Further, the response of the Administrative Departments towards the recommendations of the PAC was not encouraging as 658 recommendations pertaining to the period 1977-78 to 2005-06 were still pending for want of final action by the concerned Departments (**Annexure II**).

⁶ 2006-07: March 2008, 2007-08: February 2009, 2008-09: March 2010, 2009-10: March 2011 and 2010-11: 09 March 2012.

1.8.6 Compliance with the earlier Audit Reports

During the years between 2006-07 and 2010-11, the Department/Government accepted audit observations involving revenue of ₹ 753.85 crore out of which an amount of ₹ 325.31 crore was recovered till 31 March 2012 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
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
2010-11	324.73	183.13	4.05
Total	1,284.73	753.85	325.31

The recovery in respect of the accepted cases was 43 *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.

1.9 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 performance audits included in the Audit Report of the last 10 years in respect of Excise and Taxation Department (Sales Tax/VAT) is evaluated and included in this Audit Report.

The succeeding paragraphs 1.9.1 to 1.9.2.2 discuss the performance of the Excise and Taxation Department (Sales Tax/VAT) 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 2002-03 to 2011-12.

1.9.1 Position of Inspection Reports

The IRs incorporating irregularities detected during inspections of the various offices of the Excise and Taxation Department are issued to the heads of the offices inspected/next higher 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 (Excise and Taxation Commissioner) 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, reminders are issued after 50 days from the date of issue of the IRs and thereafter every month. Half-yearly position of the outstanding audit observations are also issued through demi-official letter to

the Administrative Department and Excise and Taxation Commissioner.

The summarised position of IRs issued during the last 10 years, paragraphs included in these reports and their status as on March 2012 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
Upto 2002-03	281	1795	169.50	32	340	116.70	4	339	23.09	309	1796	263.11
2003-04	309	1796	263.11	27	342	276.37	4	345	56.43	332	1793	483.05
2004-05	332	1793	483.05	30	401	97.29	19	442	42.66	343	1752	537.68
2005-06	343	1752	537.68	31	395	205.12	27	345	30.34	347	1802	712.46
2006-07	347	1802	712.46	26	379	66.23	5	312	41.63	368	1869	737.06
2007-08	368	1869	737.06	28	354	64.67	51	608	117.52	345	1615	684.21
2008-09	345	1615	684.21	40	439	134.72	42	531	129.22	343	1523	689.71
2009-10	343	1523	689.71	27	344	84.89	141	659	304.01	229	1208	470.59
2010-11	229	1208	470.59	29	342	203.81	3	264	103.56	255	1286	570.84
2011-12	255	1286	570.84	29	335	261.37	10	350	91.78	274	1271	740.43

The year-wise details of closing balance of IRs, paragraphs and amount involved is given in **Annexure-III**. Out of 1,271 audit observations involving revenue of ₹ 740.43 crore in 274 IRs, 397 audit observations involving revenue of ₹ 257.80 crore (35 per cent) in 153 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/Excise and Taxation Commissioner and Administrative Department to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

To ensure that the revenue dues do not become time barred, the Government may ensure that:

- an effective procedure exists for prompt and appropriate response to the audit observations;
- action is taken against officials/officers failing to take effective steps to get the audit observations settled at the earliest after initiating appropriate action on audit observations : and
- action is taken to recover loss/outstanding demands in a time bound manner.

1.9.2 Assurances given by the department/Government on the issues highlighted in the Audit Report

1.9.2.1 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	Cumulative position of recovery of accepted cases
2001-02	9	3.28	8	2.23	0.23	1.94
2002-03	15	19.38	14	18.58	0.57	18.01
2003-04	10	10.23	10	8.32	-	8.32
2004-05	7	1.92	7	1.64	-	0.96
2005-06	8	5.74	7	1.14	-	1.12
2006-07	7	6.54	7	6.54	0.17	4.52
2007-08	8	2.17	7	1.00	0.32	0.32
2008-09	11	5.48	11	5.11	0.05	0.07
2009-10	11	119.01	11	30.95	-	-
2010-11	10	147.03	5	12.59	-	-
Total	96	320.78	87	88.10	1.34	35.26

The recovery in respect of the accepted cases for the last ten years was only 40 per cent.

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

1.9.2.2 Action taken on the recommendations accepted by the departments/Government

The draft performance audits conducted by the PAG 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 departments/Government's views are included while finalising the performance audits for the Reports of the Comptroller and Auditor General of India.

The issues highlighted in the performance audits including recommendations on the Excise and Taxation Department relating to Taxes on sales, trade/VAT featured in the Report of Comptroller and Auditor General of India. The Head of the departments/Government had not intimated their acceptance or any action taken on the 33 recommendations (**Annexure- IV**) included in the eight Reports of the Comptroller and Auditor General of India during the years 2002-03 to 2010-11 for the assessments, levy and collection of sales tax/VAT as well as to avoid evasion of tax.

We observed that the Excise and Taxation department/Government had sent their replies to the PAC relating to performance audits included in the Report of Comptroller and Auditor General of India for the years 2001-02 to 2010-11. But they had not given any reply either accepting or otherwise of the conclusions and recommendations of the Reports of the Comptroller and Auditor General of India for the years 2002-03 to 2010-11. They had not furnished replies to the PAC for the Audit Reports for the years 2006-07 to 2010-11.

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

1.10 Audit planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue earning, 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 2011-12, 280 units were planned and audited out of 497 auditable units constituting audit of 56 *per cent* of the total units. The details of auditable units and units selected are shown in the **Annexure-V**.

Besides the compliance audit, two performance audits namely 'Receipts from Passenger and Goods Tax' and 'Assessment, levy and collection of tax on works contract' were also taken up to examine the efficacy of the tax administration of these receipts.

1.11 Results of audit

1.11.1 Position of local audit conducted during the year

Test check of the records of 280 units of sales tax/VAT, stamp duty and registration fee, State excise, motor vehicles and other Departmental offices conducted during the year 2011-12 revealed under assessments/short levy/loss of revenue in 9,130 cases aggregating ₹ 2,866.67 crore. During the course of the year, the concerned Departments accepted under assessments and other deficiencies of ₹ 1,765.33 crore involved in 6,619 cases, out of which ₹ 1,747.30 crore involved in 6,410 cases were pointed out in audit during 2011-12 and the rest in the earlier years. The Departments collected ₹ 2.67 crore in 190 cases during 2011-12.

1.11.2 About this Report

This Report contains two **Performance Audits on ‘Assessment, Levy and Collection of tax on Works Contracts’ and ‘Receipts from Passengers and Goods Tax’** and 18 paragraphs relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 1,746.01 crore.

The Departments/Government have accepted audit observations involving ₹ 1,745.93 crore out of which ₹ 0.62 crore has been recovered. The replies in the remaining cases had not been received (October 2012). These are discussed in succeeding Chapters II to VI.