

Chapter-3
Revenue Sector : General

Executive Summary

Chapter –3 : Revenue Sector : General

Introduction

Under Sectoral re-organisation, there are five departments, Finance, Law, Power, Transport and Revenue of the Government which have been included under the Revenue Sector. These relate to Tax revenue. The other 24 departments falling under Social Sector, General Sector and Economic Sector contributes Non-Tax revenue. The major areas of Tax receipts are Tax on sale/ trade, Taxes on services administered by the Commissioner Commercial Taxes, State Excise administered by the Excise Commissioner, Stamp Duty and Registration Fees, Taxes and Duties on Electricity, Taxes on Vehicles etc. and the major areas of Non-Tax revenue are from Power, Interest receipts, Dividends, Forestry and Wild Life, Public Works, Water supply and Sanitation. Out of these departments, audit was conducted in 61 units of three departments out of 173 local auditable units by the Revenue Sector and during the year 2011-12, audit had pointed out underassessment/short levy/loss of revenue aggregating to ₹ 42.09 crore in 255 cases. The concerned departments accepted underassessment and other deficiencies of ₹5.24 crore involved in 50 cases.

Increase in tax collection during 2011-12

The revenue raised by the State Government during 2011-12 was ₹ 6747.13 crore comprising tax revenue of ₹ 4745.49 crore and non-tax revenue of ₹ 2001.64 crore, registering an increase of 11 *per cent* over the revenue receipt of the year 2010-11. The State Government also received ₹ 3495.11 crore as State's share of divisible Union taxes and ₹ 14540.72 crore as Grants-in-aid from the Government of India. The total receipts of the Government for the year 2011-12 was ₹ 24782.96 crore. During the year, the revenue raised by the State Government was 27 *per cent* of the total receipts whereas 73 *per cent* of the receipt was from the Government of India.

Lack of Internal Audit System

The Internal audit wing had not been established to ensure compliance with the laws, rules and departmental instructions by way of scheduled audit plan, conduct of audit and follow up.

Low recovery by the Department in respect of audit observations

Out of the revenue implication of ₹ 9.90 crore featured in the Audit Reports from 2006-07 to 2010-11, the Departments/Government had accepted audit observations involving ₹ 9.90 crore but an amount of ₹ 0.43 crore was recovered till March 2012 which was only 4.34 *per cent* of the accepted amount.

Results of audit conducted in 2011-12

The records of 61 units of Commercial tax, State Excise, Motor Vehicles and other Departments were test checked wherein under assessment/short levy/loss of revenue aggregating ₹ 42.09 crore in 255 cases were pointed out. The Department concerned had accepted underassessment and other deficiencies of ₹ 5.24 crore involved in 50 cases.

Chapter-4

Significant audit observations on Revenue Sector

The Revenue Receipts Chapter contains two Performance audits and five draft paragraphs with a revenue implication of ₹ 80.10 crore relating to system and compliance deficiencies, non/ short levy of tax, interest, penalty, etc. The departments/Government has accepted the audit observations with a money value of ₹ 80.10 crore (till December 2012). Of which an amount ₹ 65.37 lakh has been recovered by the Department till December 2012.

Performance Audit on Taxes on Services

- The revenue collection trends have been buoyant, steadily increasing from ₹ 266.83 crore in 2007-08 to ₹ 697.69 crore in 2011-12. However, the number of registered dealers has not shown corresponding increase suggesting higher revenue yield from a smaller group of dealers.

(Paragraph: 4.1.7)

- The Department had not conducted any survey to identify unregistered service providers and get them registered. Audit noticed evasion of service tax of ₹ 7.66 crore due to non-registration of dealers engaged in insurance business with the Department.

(Paragraph: 4.1.9)

Performance Audit on Assessment and collection of water usage charges

- Shortfall in revenue realization of water usage charges ranged between 40 and 55 *per cent* of the Budget estimates. The mechanism for fixation of targets and framing of Budget estimates on realistic basis did not exist in the Department.

(Paragraph: 4.2.8)

- Penalty amounting to ₹ 2.07 crore was short levied while regularizing the illegal water connections of the consumers.

(Paragraph: 4.2.11)

Commercial Taxes Department

- Failure of the Assessing Authority to detect concealment of interstate purchases by the dealer resulted in short levy of tax, interest and penalty of ₹ 7.58 lakh.

(Paragraph: 4.5)

- Failure of the Assessing Authority to detect short account of stocks by the dealer at the time of assessment resulted in non-levy of tax of ₹ 36.45 lakh.

(Paragraph: 4.6)

Recommendations

The Government may consider to put in place a mechanism for:

- **ensuring prompt recovery of the amounts in the accepted cases;**
- **ensuring recovery of the arrears of revenue, particularly in those cases which have been pending for a long time;**
- **ensuring holding of Audit Committee Meetings frequently and monitor the progress of settlement of paragraphs;**
- **collection of information/data from various sources for bringing all service providers in the State under the tax net;**

Chapter-3 : Revenue Sector : General

3.1 Introduction

Under Sectoral re-organisation, there are five departments, Finance, Law, Power, Transport and Revenue of the Government which have been included under the Revenue Sector. These relate to Tax revenue. The other 24 departments falling under Social Sector, General Sector and Economic Sector contributes Non-Tax revenue. The major areas of Tax receipts are Tax on sale/ trade, Taxes on services administered by the Commissioner Commercial Taxes, State Excise administered by the Excise Commissioner, Stamp Duty and Registration Fees, Taxes and Duties on Electricity, Taxes on Vehicles etc. and the major areas of Non-Tax revenue are from Power, Interest receipts, Dividends, Forestry and Wild Life, Public Works, Water supply and Sanitation. Out of these departments, audit was conducted in 61 units of three departments out of 173 local auditable units by the Revenue Sector and during the year 2011-12, audit had pointed out underassessment/short levy/loss of revenue aggregating to ₹ 42.09 crore in 255 cases. The concerned departments accepted underassessment and other deficiencies of ₹ 5.24 crore involved in 50 cases.

3.1.1 Audit mandate

The audit of revenue receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor's General's (Duties, Powers and Conditions of Service) Act, 1971.

3.1.2 Audit planning

The unit offices under various Departments are categorized 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, Reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, statistical analysis of the revenue earnings during the past five years, factors of the tax administration, audit coverage and its impact during past five years, etc.

During the year 2011-12, 61 units out of 173 auditable units were planned and audited, which is 35 *per cent* of the total auditable units.

3.1.3 Trend of revenue receipts

The tax and non-tax revenue raised by the Government of Jammu and Kashmir during the year 2011-12, 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 **Table-3.1** below

Table: 3.1

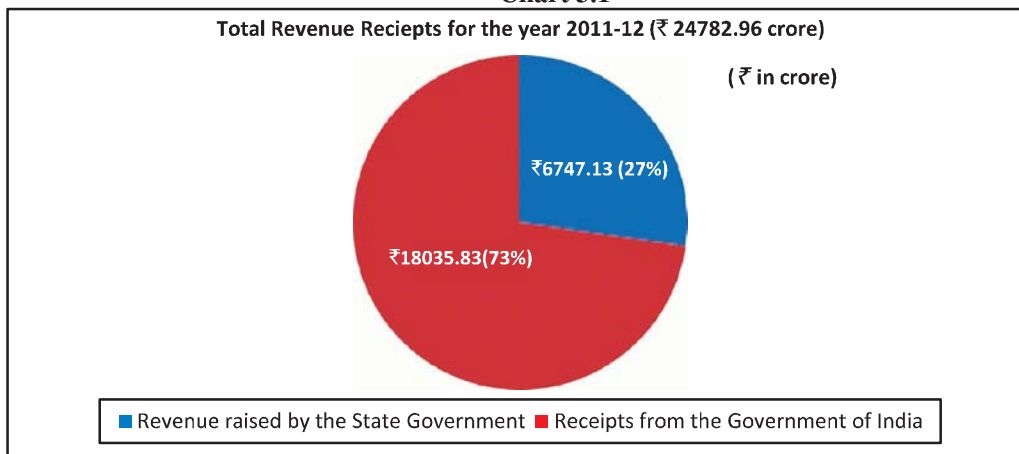
(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Revenue raised by the State Government					
	Tax Revenue	2558.18	2682.96	3027.32	3482.58	4745.49
	Non-tax revenue	807.98	837.16	955.03	1093.11	2001.64
	Total	3366.16	3520.12	3982.35	4575.69	6747.13
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	1775.01	1826.95	1914.76	3066.98	3495.11
	Grants-in-aid	8135.87	8955.46	11690.71	14590.98	14540.72
	Total	9910.88	10782.41	13605.47	17657.96	18035.83
3.	Total revenue receipts of the State Government¹ (1& 2)	13277.04	14302.53	17587.82	22233.65	24782.96
4.	Percentage of 1 to 3	25	25	23	21	27

The above table indicates that during 2011-12, the overall receipts of the State increased by 11 per cent over the previous year. The State's own revenue (₹ 6747.13 crore) was 27 per cent of the total revenue receipts against 21 per cent in the preceding year. The balance 73 per cent were met from the funds received from Government of India (GOI) of which 80.62 per cent came in the form of Grant-in-aid and remaining 19.38 per cent was from the share of net proceeds of divisible union taxes and duties. The Grant-in-aid from GOI constituted 58.67 per cent of the total receipts of the State.

3.1.4 The details of tax revenue raised during the period 2007-08 to 2011-12 is given in **Chart 3.1** and **Table 3.2** below:-

Chart 3.1



1

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 2011-12. 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, 044- 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.

Table: 3.2

(₹ in crore)

Sl. 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.	Tax on Sales Trade (sales Tax/VAT) etc.	1804.81	1835.99	2145.72	2424.52	3414.01	(+) 41
2.	State Excise	244.15	238.67	293.78	337.24	385.47	(+) 14
3.	Stamp Duty and Registration Fees						
	Stamps judicial	5.00	5.83	9.01	12.49	19.56	(+) 57
	Stamps non-judicial	50.48	41.75	51.97	59.24	124.66	(+) 110
	Registration Fees	10.14	9.56	8.53	6.85	26.75	(+) 291
4.	Taxes and Duties on Electricity	93.49	150.76	120.34	147.50	179.12	(+) 21
5.	Taxes on Vehicles	72.60	65.47	83.09	115.33	104.52	(-) 9
6.	Tax on Goods and Passengers	264.59	271.39	299.43	337.16	457.93	(+) 36
7.	Taxes on immovable property on other than Agricultural Income	-	-	-	-	-	-
8.	Land Revenue	9.58	63.53	15.41	42.03	33.00	(-) 22
9.	Others Taxes and Duties Commodities and Services	3.33	0.01	0.02	0.22	0.47	(+) 114
	Total	2558.17	2682.96	3027.30	3482.58	4745.49	(+) 36

The above table indicates that the tax revenue collected by the State has increased over the period 2007-12. The tax revenues have increased by 36 per cent in 2011-12 as compared to the previous year. The increase in receipts under Tax on sales Trade is mainly due to more receipts under State VAT Act. The receipt under 'Land Revenue' has shown fluctuating trends during the last five years. The reasons for increase in receipts in 2011-12 over those of 2010-11 under other heads of revenue were not provided by the concerned Departments (December 2012).

Our analysis of the State Finance Account for the year 2011-12 and other documents available, however, indicated that increase in 'State Excise' was mainly due to collection of more receipts on account of sale of liquor. The increase in 'Taxes and Duties on Electricity' was due to collection of more receipts on account of power tariff under the head 0801 – Power, whereas the increase in Stamp Duty and Registration Fee was due to collection of more receipts on account of Registration Fee and Sale of non-judicial stamps. The increase in Taxes on Goods and Passengers was due to increased collection of revenue on account of Toll on roads. The decrease in revenue on Taxes on Vehicles was mainly due to less collection of revenue under the head 'Other Receipts'.

3.1.5 The details of the non-tax revenue raised during the period 2007-08 to 2011-12, is given in **Table 3.3** below:-

Table-3.3*(₹ in crore)*

Sl. 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.	Power	600.94	629.98	723.64	822.09	1006.93	(+) 22
2.	Interest Receipts, Dividends and Profits	65.33	56.51	54.80	67.04	101.22	(+) 51
3.	Forestry and Wild Life	32.20	31.61	37.46	47.47	55.20	(+) 16
4.	Public Works	16.44	16.89	23.87	23.58	25.94	(+) 10
5.	Medical and Public Health	13.21	9.92	9.49	9.40	14.55	(+) 55
6.	Water Supply and Sanitation	13.64	14.65	13.16	15.97	20.56	(+) 29
7.	Police	4.21	10.35	12.84	10.99	24.91	(+) 127
8.	Non-ferrous Mining and Metallurgical Industries	16.43	14.86	25.34	34.51	41.18	(+) 19
9.	Crop Husbandry	4.52	5.00	5.23	4.53	11.73	(+) 159
10.	Animal Husbandry	4.66	4.70	5.13	5.41	6.41	(+) 18
11.	Education, Sports, Art and Culture	1.53	1.61	2.21	2.56	4.06	(+) 59
12.	Others	34.87	41.08	41.86	49.55	688.95	(+) 1290
	Total	807.98	837.16	955.03	1093.10	2001.64	(+) 83

The collection under non-tax revenue heads too has shown steady rise since 2007-08. The non-tax receipts increased by 83 *per cent* in 2011-12 when compared to 2010-11. The reasons for increase in receipts in 2011-12 over those of 2010-11 were not provided by the concerned Departments (December 2012).

However, analysis of the State Finance Account for the year 2011-12 indicated that huge increase in non-tax revenue under the head 'others' was due to more receipts on account of water usage charges remitted by the NHPC, under head 0701-Major & Medium Irrigation and write off of loans from Central Government under 0075-Misc General Services.

3.2 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 given in **Table 3.4** below:

Table: 3.4

(₹ in crore)				
Revenue head	Budget estimates	Actual Receipts	Variations increase (+)/Shortfall (-)	Percentage of variation
Tax Revenue				
Taxes/VAT on sales, trade etc.	3419.32	3414.01	(-) 5.31	(-) 0.16
State Excise	383.00	385.47	(+) 2.47	(+) 0.64
Stamp duty and registration fees	133.27	170.97	(+) 37.70	(+) 28.28
Taxes on vehicles	128.50	104.52	(-) 23.98	(-) 18.66
Taxes and duties on electricity	262.00	179.12	(-) 82.88	(-) 31.64
Land revenue	25.00	33.00	(+) 8.00	(+) 32.00
Other taxes and duties on commodities and services	0.51	0.47	(-) 0.04	(-) 7.84
Taxes on goods and passengers-Tax on entry of goods into local areas	439.00	457.93	(+) 18.93	(+) 4.31
Non-Tax Revenue				
Non-ferrous mining and metallurgical industries	43.00	41.18	(-) 1.82	(-) 4.23
Forestry and wild life	55.57	55.20	(-) 0.37	(-) 0.66
Interest receipts	22.30	33.06	(+) 10.76	(+) 48.26
Major and Medium Irrigation	22.84	565.83	(+) 542.99	(+) 2377.36

The departments did not intimate (December 2012) the reasons for variation despite repeated requests.

3.3 Analysis of collection of tax revenue

The break-up of the total collection at the pre-assessment stage and after regular assessment of taxes on sales, trade and Motor spirits, etc. during the year 2011-12 and corresponding figures for the preceding four years as furnished by the Finance (Commercial Taxes) Department is mentioned in **Table 3.5** below:

Table: 3.5

(₹ 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	Total collection	Percentage of column 3 to 6
1	2	3	4	5	6	7
Taxes on Sales/VAT	2007-08	1160.63	1.16	50.30	1212.09	96
	2008-09	1275.28	4.65	55.43	1335.36	96
	2009-10	1768.08	7.42	16.15	1791.65	99
	2010-11	2049.92	3.82	70.83	2124.57	96
	2011-12	2475.19	21.80	11.16	2508.15	99
Motor spirit tax.	2007-08	268.37	0.02	0.02	268.41	100
	2008-09	294.90	-	-	294.90	100
	2009-10	369.24	-	-	369.24	100
	2010-11	473.54	-	-	473.54	100
	2011-12	587.20	-	-	587.20	100

(Source: Figures supplied by the Department)

The figures are at variance with the figures mentioned in the Finance accounts; the reasons of variance though called for, have not been received.

It is seen from the above table that collection under the revenue heads “Sales taxes/VAT” and “Motor Spirit tax” at pre-assessment stage ranged between 96 to 100 percent.

3.4 Cost of collection of revenue receipts

The gross collection of major revenue receipts, expenditure incurred on collection and the percentage of such expenditure to gross collection during the year 2009-10 to 2011-12 along with the relevant all India average percentage of expenditure on collection to gross collections for the year 2010-11 are mentioned in **Table 3.6** below:-

Table: 3.6

(₹ in crore)

S. 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	2145.72	23.56	1.10	0.75
		2010-11	2424.52	22.17	0.91	
		2011-12	3414.01	27.60	0.81	
2.	State excise	2009-10	293.78	12.37	4.21	3.05
		2010-11	337.24	14.38	4.26	
		2011-12	385.47	17.09	4.43	
3.	Stamp duty and registration fees	2009-10	69.51	7.80	11.22	1.60
		2010-11	78.58	12.68	16.14	
		2011-12	170.97	20.87	12.20	
4.	Taxes on vehicles	2009-10	83.10	4.56	5.49	3.71
		2010-11	115.33	5.38	4.66	
		2011-12	104.52	7.44	7.12	

(Source: Finance Accounts Statements 11 & 12)

Evidently the percentage of cost of collection in respect of all the revenue heads mentioned in the table was much higher than the All India Average, and the Government needs to look into this aspect.

3.5 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2012, in respect of the principal heads of revenue as reported by the departments was ₹ 1610.09 crore of which ₹ 798.60 crore were outstanding for more than five years as mentioned in **Table 3.7** below:-

Table: 3.7

(₹ in crore)

S. No.	Heads of revenue	Amount outstanding as on 31 March 2012	Amount outstanding for more than five years	Remarks
1.	Taxes on Sales/VAT, Trades etc.	1537.56	771.94	Out of the arrears, recovery of ₹ 124.15 crore was stayed by the courts/Appellate Authority/proposed for recovery as arrears of land revenue, etc. Specific action taken in respect of the remaining arrears of ₹ 1413.41 crore has not been intimated (December 2012).
2.	State Excise	4.65	4.53	Out of the arrears, recovery of ₹ 0.69 crore was stayed by the courts/Appellate Authority. Specific action taken in respect of the remaining arrears of ₹ 3.96 crore has not been intimated (December 2012).
3.	Motor spirit tax	0.80	-	Specific action taken in respect of these arrears has not been intimated (December 2012).
4.	Passenger tax	35.06	4.68	Specific action taken in respect of these arrears has not been intimated (December 2012).
5.	Entertainment Tax	0.21	0.21	Specific action taken in respect of these arrears has not been intimated (December 2012).
6.	Toll Tax	31.81	17.24	Out of the arrears, recovery of ₹ 27.19 crore was stayed by the courts/Appellate Authority. Specific action taken in respect of the remaining arrears of ₹ 4.62 crore has not been intimated (December 2012).
	Total	1610.09	798.60	

(Source: Departmental figure)

Appropriate steps need to be taken for recovery of arrears of revenue. The arrears outstanding for more than five years constitute 50 per cent of the total arrears and need to be recovered on priority.

The Government may take immediate steps for recovery of the arrears of revenue, particularly in those cases which have been pending for a long time.

3.6 Arrears in assessment

The details of assessments relating to Sales Tax/VAT and taxes on Works Contracts pending at the beginning of the year, additional cases due for assessment during the year, cases disposed during the year and cases pending at the end of each year during 2007-08 to 2011-12 as furnished by the Commercial Taxes Department were as given in the **Table 3.8** below:-:

Table: 3.8

Year	Opening balance	New Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of cases disposed to total assessment
2007-08	8,523	21,829	30,352	12,140	18,212	40
2008-09	18,279 ²	10,815	29,094	9,838	19,256	34
2009-10	28,539 ³	22,178	50,717	19,916	30,801	39
2010-11	30,801	18,647	49,448	20,265	29,183	41
2011-12	29,183	19,641	48,824	22,130	26,694	45

(Source: Figures supplied by the Department)

The above table indicates that the percentage of assessments completed to the total assessment ranged between 34 and 45 per cent during the period from 2007-08 to 2011-12.

The Government may consider fixing a time limit for finalisation of the pending assessment and put in place a system for monitoring the progress of finalisation of assessment periodically, to ensure that the time limit so fixed is adhered to by the Departmental authorities.

3.7 Evasion of tax

The details of cases of evasion of tax detected by the departments, cases finalized and demands raised as on 31 March 2012, as reported by the departments concerned are mentioned in Table 3.9 below:-

Table: 3.9

Department	Cases pending as on 31 March 2011	Cases detected during 2011-12	Total	Number of cases in which assessments/investigation completed and additional demand including penalty etc. raised during the year 2011-12		Number of cases pending as on 31 March 2012
				No. of cases	(₹ in crore)	
Sales Tax/VAT	1703	9132	10835	9563	60.33	1272
Toll Tax	-	269	269	269	0.19	-
State Excise	1 ⁴	Nil	1	-	-	1
Passenger Tax	Nil	2452	2452	2452	0.03	-
Total	1704	11853	13557	12284	60.55	1273

(Source: Departmental figure)

The progress of recovery against the demand raised was not intimated (December 2012).

² The variation in closing balance ending 31 March 2008 and opening balance as on 01 April 2008 has been pointed out to the Department (September 2009), the reply is awaited (December 2012).

³ The variations in closing balance ending 31 March 2009 and opening balance as on 01 April 2009 has been pointed out to the Department (September 2010), the reply is awaited (December 2012).

⁴ As per Departmental reply (July 2012) the number of cases pending as on 31 March 2011 in respect of State Excise was one only.

3.8 Non disposal of Refund cases

The number of refund cases pending at the beginning of the 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 Commercial tax Department is given in **Table 3.10** below.

Table: 3.10

(₹ in lakh)

S. No.	Particulars	Sales Tax	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	9	0.11
2.	Claims received during the year	4	0.03
3.	Refunds made during the year	-	-
4.	Balance outstanding at the end of the year	13	0.14

(Source: Figures supplied by the Department)

The increase in number of pending refund cases was not encouraging as the Government had to pay interest on the refund amounts to the assessees.

3.9 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. These inspections are followed up with Inspection Reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which were issued to the heads of the offices 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.

3.10 Failure of Head of the Department to enforce accountability and protect the interest of the State Government

Inspection Reports issued upto June 2011 disclosed that 2120 paragraphs involving ₹ 1735.97 crore relating to 614 IRs remained outstanding at the end of June 2011 as mentioned in the following table along with the corresponding figures for the preceding two years.

	June 2009	June 2010	June 2011
Number of outstanding IRs	487	554	614
Number of outstanding audit observations	1678	1948	2120
Amount involved (₹ in crore)	745.83	1691.33	1735.97

The Department-wise details of the IRs and audit observations outstanding as on 30th June 2011 and the amounts involved are mentioned in the **Table 3.11** below:

Table: 3.11

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.	279	1326	743.16
2.	Excise	State Excise	73	147	137.91
3.	Transport	Taxes on Motor Vehicles	55	176	36.47
4.	Law	Stamps duty and Registration Fees	207	471	818.43
	Total		614	2120	1735.97

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

3.11 Departmental Audit Committee Meetings

During the year 2011-12, no Audit Committee Meeting was held for settlement of the audit observations raised by the State Revenue Audit.

It is recommended that the Government may:

- advise the concerned Departments to hold Audit Committee Meetings 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.

3.12 Non-production of records to audit

Audit is an exercise that is critically dependent for its successful execution on thorough examination of records, documents, oral and written responses of the officials of the auditee units. It was, however, observed during 2011-12 that non-production of records during the course of audit of various departments (*Appendix-3.1*) has adversely impacted audit engagements and the benefits such audit engagements would have offered to the senior executives of the Government and the representatives of the people in the form of quality mid-term/end-term appraisals of various socio-economic programmes funded by the exchequer or of reliable assurance on compliance with relevant rules and principles prescribed for incurring or collecting revenue receipts. The Government should issue appropriate instructions to various formations of the Government in regard to prompt production of records, documents, responses etc.

3.13 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.

Audit conducted two performance audits during the year ended 2012. These performance audits along with five draft paragraphs included in the Audit Report of the Comptroller and Auditor General of India (CAG) for the year ended March 2012, Government of Jammu and Kashmir were forwarded to the concerned Secretaries of the respective Departments upto November 2012. Replies of the draft paras have been included in the paragraphs. Performance audits were discussed in the Exit conference held with the Government/concerned Departments and replies provided during exit conference have been incorporated in the Performance Audit.

3.14 Follow up on Audit Reports – Summarised position

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 2012, out of 79 Audit paragraphs included in the Audit Reports for the years 2000-01 to 2010-11, the ATNs in respect of 68 Audit paragraphs due between June 2002 and December 2012 had not been finalized.

3.15 Analysis of the mechanism for dealing with the issues raised by Audit

The succeeding paragraphs 3.16 and 3.17 discuss the performance of the Commercial Tax, State Excise, Motor Vehicles and other Departments dealing with the cases detected in the course of local audit conducted and of the cases included in the Audit Reports for the years 2006-07 to 2010-11.

3.16 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 31 March 2012 are tabulated in the Table 3.12 below:

Table: 3.12

(₹ 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
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
2011-12	599	2053	1726.88	72	341	57.14	20	107	41.66	651	2287	1742.36

This is indicative of the fact that adequate efforts were not made by the Departments in this regard resulting in piling up of the outstanding IRs and Paragraphs.

3.17 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

3.17.1 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 given in the

Table 3.13 below:

Table: 3.13

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year
2006-07	08	1.82	08	1.82	0.00
2007-08	07	5.11	07	4.26	0.42
2008-09	05	0.94	05	0.94	0.01
2009-10	05	0.89	05	0.89	0.00
2010-11	05	1.14	05	1.14	0.0001
Total	30	9.90	30	9.90	0.43

It is seen from the above that in respect of paragraphs featured in the Audit Reports 2006-07 to 2010-11 the Department/Government accepted Audit observations involving ₹ 9.90 crore, of which only ₹ 0.43 crore was recovered till March 2012. This shows that the Departments/Government did not recover the dues fully even in the cases where the audit observations had been accepted. On the other hand, the Government is taking loan to run the Departments. If the Departments took prompt action for recovery of amounts pointed out by audit and accepted by the Department, the Government could reduce the burden of loans.

Further, audit had pointed out short levy of penalty and tax in two cases amounting to ₹ 23.77 lakh, relating to Value Added Tax and the Department while accepting the audit observations, reassessed the cases and raised the additional demand of ₹ 23.77 lakh and the same has been recovered in full (September 2012).

The Department may ensure prompt recovery of dues involved in the accepted cases.

3.18 Results of Audit

3.18.1 Position of local audit conducted during the year

Test-check of the records of 61 units of Commercial Tax, State Excise, Motor Vehicles and other Departments conducted during the year 2011-12 revealed underassessment/short levy/loss of revenue aggregating ₹ 42.09 crore in 255 cases. The concerned Departments accepted underassessment and other deficiencies of ₹ 5.24 crore involved in 50 cases pointed out in audit during 2011-12 and earlier years.

3.19 Contents of the Revenue Chapter

The Revenue Chapter contains five paragraphs and two Performance audits of Taxes on Services, Assessment and Collection of Water usage charges, involving revenue implication of ₹ 80.10 crore relating to short/non-levy of tax, duty, interest, penalty, etc. The Departments/Government have accepted audit observations involving ₹ 80.10 crore out of which ₹ 65.37 lakh has been recovered. The replies in the remaining cases have not been received (December 2012). These are discussed in **Chapter-4** of the Report.