

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Uttar Pradesh 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 mentioned below:

(₹ in crore)

Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1. Revenue raised by the State Government						
	• Tax revenue	24,959.32	28,658.97	33,877.60	41,355.00	52,613.43
	• Non-tax revenue	5,816.01	6,766.55	13,601.09	11,176.21	10,145.30
	Total	30,775.33	35,425.52	47,478.69	52,531.21	62,758.73
2. Receipts from the Government of India						
	• State's share of divisible Union taxes	29,287.74	30,905.72	31,796.67	43,218.90	50,350.95 ¹
	• Grants-in-aid	8,609.40	11,499.49	17,145.59	15,433.65	17,760.02
	Total	37,897.14	42,405.21	48,942.26	58,652.55	68,110.97
3.	Total receipts of the State (1 and 2)	68,672.47	77,830.73	96,420.95	1,11,183.76	1,30,869.70
4.	Percentage of 1 to 3	45	46	49	47	48

Source: Finance Accounts of the Government of Uttar Pradesh.

The above table indicates that during the year 2011-12, the revenue raised by the State Government was 48 *per cent* of the total revenue receipts (₹ 1,30,869.70 crore) against 47 *per cent* in the preceding year. The balance 52 *per cent* of receipts during 2011-12 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 Uttar Pradesh 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, 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - Share of net proceeds assigned to States booked in the Finance Accounts under 'A - Tax revenue' have been excluded from revenue raised by the State and included in '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 2007-08 to 2011-12:

(₹ in crore)

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Increase (+) or decrease (-) in 2011-12 with reference to 2010-11	Percentage of increase or decrease with reference to 2010-11
1.	Commercial tax/VAT	15,023.10	17,482.05	20,825.18	24,836.52	33,107.34	(+) 8,270.82	33.30
2.	State excise	3,948.40	4,720.01	5,666.06	6,723.49	8,139.20	(+) 1,415.71	21.06
3.	Stamps and registration fees	3,976.68	4,138.27	4,562.23	5,974.66	7,694.40	(+) 1,719.74	28.78
4.	Taxes on vehicles	1,145.84	1,124.66	1,403.50	1,816.89	2,375.86	(+) 558.97	30.77
5.	Taxes on goods and passengers	109.65	266.49	271.05	241.69	4.81	(-) 236.88	(-) 98.01
6.	Taxes and duties on electricity	206.65	216.72	272.16	357.00	458.20	(+) 101.20	28.35
7.	Land revenue	392.53	549.28	663.14	1,134.16	490.68	(-) 643.48	(-) 56.74
8.	Other taxes and duties on commodities and services	137.50	140.58	193.34	245.15	312.46	(+) 67.31	27.46
9.	Other (hotel receipts, corporation tax, etc.)	18.97	20.91	20.94	25.44	30.46	(+) 5.02	19.75
Total		24,959.32	28,658.97	33,877.60	41,355.00	52,613.43²	11,258.43	27.22

Source: Finance Accounts of the Government of Uttar Pradesh.

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

Commercial Tax/VAT: The increase was due to more collections on account of UPVAT.

State Excise: The increase was due to realisation of more revenue on account of “Country Spirits” and “Foreign liquor and Spirits”.

Stamps and Registration Fees: The increase was due to sale of more Non-judicial Stamps.

Taxes on Vehicles: The increase was due to realisation of more taxes on sale of vehicles and collection of taxes under the State Motor Vehicle Taxation Act.

Taxes on Goods and Passengers: The accounts head ‘Taxes on vehicles’ was fixed for deposit of the revenue of this head from 2011-12, therefore, there was ‘NIL’ provision in the Budget Estimates and revenue receipt was only ₹ 4.81 crore under this head.

² The difference of ₹ 0.02 crore in vertical total of tax revenue in the column is due to rounding off the actual figures in crore rupees.

Land Revenue: The decrease was due to less collection of fixed charges, realisation of arrears from Improvement Trust, Ghaziabad and Housing Boards.

The other Departments did not inform the reasons for variation (February 2013).

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

(₹ in crore)

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Increase (+) or decrease (-) in 2011-12 with reference to 2010-11	Percentage of increase/decrease with reference to 2010-11
1.	Misc. general services	1,153.53	1,698.79	8,075.13	5,120.67	4,035.23	(-) 1,085.44	(-) 21.20
2.	Interest receipts	1,247.84	963.87	603.66	689.32	789.22	(+) 99.90	14.49
3.	Forestry and wild life	294.80	271.92	271.29	280.34	285.88	(+) 5.54	1.97
4.	Medium irrigation	319.43	260.91	240.21	148.62	145.52	(-) 3.10	(-) 2.08
5.	Education, sports, art and culture	1,217.62	1,080.61	2,339.86	2,614.11	2,008.55	(-) 605.56	(-) 23.16
6.	Other administrative services	146.10	145.04	147.19	374.46	542.65	(+) 168.19	44.91
7.	Non-ferrous mining and metallurgical industries	395.20	427.31	604.97	653.39	593.28	(-) 60.11	(-) 9.20
8.	Police	147.17	160.78	119.34	177.13	196.30	(+) 19.17	10.82
9.	Crop husbandry	51.03	49.64	37.60	42.18	58.66	(+) 16.48	39.07
10.	Social security and welfare	19.73	34.06	39.69	49.56	154.03	(+) 104.47	210.79
11.	Medical and public health	72.11	618.84	94.35	101.35	107.93	(+) 6.58	6.49
12.	Minor irrigation	31.41	31.65	25.26	36.00	47.94	(+) 11.94	33.18
13.	Roads and bridges	74.24	60.69	87.10	98.51	152.85	(+) 54.34	55.16
14.	Public works	34.03	57.52	72.80	69.45	69.97	(+) 0.52	0.75
15.	Co-operation	6.33	26.46	16.39	9.38	9.78	(+) 0.40	4.29
16.	Others	605.44	878.46	826.25	711.74	947.51	(+) 235.77	33.13
Total		5,816.01	6,766.55	13,601.09	11,176.21	10,145.30	(-) 1,030.91	(-) 9.22

Source: Finance Accounts of the Government of Uttar Pradesh.

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

Miscellaneous General Services: Decrease was due to less collection under Other Receipts.

Education, Sports, Art and Culture: Decrease was due to less realisation of miscellaneous receipts under Elementary Education.

The other Departments did not inform the reasons for variation (February 2013).

1.2 Response of the Department/Government towards Audit

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

The Accountant General (E&RSA), Uttar 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 Office 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 Department and the Government.

We reviewed the IRs issued upto December 2011 and found that 28,455 paragraphs involving ₹ 5,234.12 crore relating to 11,538 IRs remained outstanding at the end of June 2012, as mentioned below along with the corresponding figures for the preceding two years:

Sl. No.	Description	2010	2011	2012
1.	Number of inspection reports pending settlement	9,287	10,349	11,538
2.	Number of outstanding audit observations	22,484	25,501	28,455
3.	Amount of revenue involved (₹ in crore)	3,757.81	4,445.39	5,234.12

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 and the amounts involved are mentioned below:

Sl. No.	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Amount of revenue involved (₹ in crore)	Year to which the observations relate
1.	Commercial Tax/VAT including Entry tax	4,138	12,856	1,951.88	1984-85 to 2011-12
2.	State Excise	1,048	2,075	331.16	1984-85 to 2011-12
3.	Land revenue	542	772	28.09	1987-88 to 2011-12
4.	Taxes on vehicle, goods and passengers	1,001	3,259	702.81	1984-85 to 2011-12
5.	Public works	468	921	64.48	1986-87 to 2011-12
6.	Irrigation	350	748	108.51	1984-85 to 2011-12
7.	Taxes on purchase of sugarcane	97	112	54.29	1985-86 to 2011-12
8.	Stamps and registration fees	2,577	4,731	228.90	1984-85 to 2011-12
9.	Agriculture	182	309	22.21	1985-86 to 2011-12
10.	Electricity duty	174	215	170.15	1988-89 to 2011-12
11.	Food and civil supplies	105	179	19.76	1991-92 to 2011-12
12.	Co-operative	93	114	5.96	1985-86 to 2011-12
13.	Entertainment tax	134	210	10.54	1997-98 to 2011-12
14.	Non-ferrous Mining and Metallurgical Industries	15	89	97.71	2010-11 to 2011-12
15.	Medical and public health	116	480	10.40	2002-03 to 2011-12
16.	Forestry and wild life	495	1,382	1,427.25	2003-04 to 2011-12
17.	Jail	3	3	0.02	2002-03 to 2011-12
	Total	11,538	28,455	5,234.12	

This large pendency of the IRs is indicative of the fact that the concerned Heads of Office/Heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

We recommend that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as initiate 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 sets 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 2011-12 and the paragraphs settled are mentioned below:

Name of Department	Number of meetings held	Number of paras under consideration	Number of paras settled	Amount (₹ in crore)
Commercial Tax	27	221	221	3.40
Land revenue	6	45	28	0.48
Public works	4	57	37	0.16
Total	37	323	286	4.04

In addition to audit committee meetings, 767 paras of value ₹ 33.67 crore were settled during the year 2011-12 through spot discussions and replies received from the Departments as detailed below:

Name of Department	Number of paras settled	Amount (₹ in crore)
Commercial Tax	488	9.55
Stamps and registration	127	4.10
State excise	74	17.27
Transport	24	0.39
Land revenue	7	2.14
Geology and Mining	38	0.16
Entertainment Tax	9	0.06
Total	767	33.67

In order to expedite clearance of outstanding audit observations, it is necessary that audit committees should meet regularly and ensure appropriate action on all audit observations leading to their settlement.

1.2.3 Response of the Departments to the draft audit paragraphs

The Department of Finance issued directions to all the Departments to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. We forward the draft paragraphs to the Secretaries of the concerned Departments through demi-official letters by the AG, drawing their attention to the audit findings and requesting them to send their response within six weeks. In case of non-receipt of replies from the Departments the fact is invariably indicated at the end of each paragraph included in the Audit Report.

Fifty five draft paragraphs and one Performance Audit included in this Report for the year ended 31 March 2012 were forwarded to the Secretaries of the concerned Departments between June 2011 and May 2012 through demi-official letters. The Secretaries of the concerned Departments sent replies against the Performance Audit and 15 draft paragraphs, while replies against 32 draft paragraphs have been received from Departments. Replies of one, five and two draft paragraphs have not been received from the Departments of Transport, Geology and Mining and Forest respectively.

1.2.4 Follow-up on Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt in the various Audit Reports (ARs), the Department of Finance issued instructions in June 1987 to initiate *suo moto* action on all paragraphs/performance audits figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the Public Accounts Committee (PAC) or not. Out of 109 paragraphs/performance audits included in Audit Reports relating to the period 2006-07 to 2010-11 which have already been laid before the State Legislature, no explanatory notes (ENs) in respect of 75 paragraphs/performance audits were received in our office as on October 2012. The outstanding ENs dating back to 2006-07 are as mentioned below:

Year of Report	Date of presentation of Audit Report to the legislature	No. of paragraphs/performance audits included in the Audit Reports	No. of paragraphs/performance audits on which ENs have been received from the Departments	No. of paragraphs/performance audits on which ENs have not been received from the Departments
2006-07	15 February 2008	24	12	12
2007-08	17 February 2009	16	14	2
2008-09	28 January 2010	13	8	5
2008-09 (Stand Alone Report on State Excise)	5 August 2011	1	0	1
2009-10	8 August 2011	20	0	20
2010-11	30 May 2012	35	0	35
Total		109	34	75

1.2.5 Compliance with the earlier Audit Reports

In our Audit Reports 2006-07 to 2010-11 cases of underassessment, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving ₹ 2,751.67 crore were reported. As of October 2012, the Departments concerned have accepted observations of ₹ 959.69 crore and recovered ₹ 14.11crore. Audit Report-wise details of cases accepted and recovered are mentioned in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2006-07	92.18	1.74	0.37
2007-08	1,035.85	927.83	12.83
2008-09	109.07	4.26	0.03
2008-09 (Stand Alone Report on State Excise)	1,344.56	--	--
2009-10	69.51	8.77	0.16
2010-11	100.50	17.09	0.72
Total	2,751.67	959.69	14.11

The recovery in respect of the accepted cases is extremely low (1.47 per cent).

The Government needs to take necessary steps for prompt recovery of the amounts involved, specially in the 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 performance audits included in the Audit Reports of the last five years in respect of one Department has been evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Transport Department** in dealing 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 2006-07 to 2010-11.

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 March 2012 are tabulated below:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2006-07	904	2710	102.72	61	171	9.22	1	4	0.01	964	2877	111.93
2007-08	964	2877	111.93	67	295	11.35	6	12	0.10	1025	3160	123.18
2008-09	1025	3160	123.18	74	245	107.19	208	546	10.73	891	2859	219.65
2009-10	891	2859	219.65	78	360	25.74	39	111	11.15	930	3108	234.24
2010-11	930	3108	234.24	60	183	8.34	132	610	15.57	858	2681	227.01
2011-12	858	2681	227.01	71	510	87.47	4	24	0.39	925	3167	314.09

During the years 2008-09 to 2011-12, 920 paragraphs involving money value ₹ 26.16 crore were settled in 18 Audit committee meetings.

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 below:

(₹ 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	Cumulative position of recovery of accepted cases
2006-07	2	6.11	-	-	-	-
2007-08	2	82.02	1	73.22	1	8.80
2008-09	1	5.80	-	-	-	-
2009-10	1	15.60	1	5.49	-	-
2010-11	8	2.15	3	0.57	-	-
Total	14	111.68	5	79.28	1	8.80

The analysis of the above table shows that the percentage of the paragraphs accepted and their money value is very low. The amount of recovery in relation to the money value of accepted para is 11.10 *per cent*.

We recommend that the Department ensure that it recovers at least the amounts involved in the accepted paragraphs.

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

The draft Performance Audits conducted by us are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These Performance Audits are also discussed in an exit conference and the Department/Government's views are included while finalising the Performance Audits for the Audit Reports.

The details of issues highlighted in the Performance Audit on "**Working of Transport Department**" and "**Computerisation in Motor Vehicles Department**" featured in the Audit Report 2009-10 and 2010-11 respectively including the recommendations made and the recommendations accepted by the Department are mentioned below:

Year of Audit Report	Title of the Performance Audit	Number of recommendations	Number of recommendations accepted
2009-10	Working of Transport Department	8	6
2010-11	Computerisation in Motor Vehicles Department	8	8

The Department has not yet communicated the action taken on the recommendations given in these Reports.

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 2011-12, the audit universe comprised of 1972 auditable units, of which 1356 units were audited. The details are shown in the following table:

Sl. No.	Departments	Total number of auditable units	Total number of audited units
1.	Commercial Tax	987	615
2.	State Excise including distilleries	282	200
3.	Transport	97	96
4.	Entertainment tax	63	29
5.	Stamps and Registration	404	339
6.	Geology and Mining	26	17
7.	Forest	113	60
	Total	1,972	1,356

Besides the compliance audit mentioned above, a Performance Audit on “**Working of Stamps and Registration Department**” has also been attempted.

1.5 Results of Audit

1.5.1 Position of local audit conducted during the year

Our test check of the records of 1,356 units relating to Commercial Tax/Value Added Tax, State Excise, Taxes on Vehicles, Goods and Passengers, Stamps and Registration fees, Mining Receipts and Other Tax and Non Tax Receipts conducted during the year 2011-12 revealed underassessments/short levy/loss of revenue aggregating ₹ 1,754.31 crore in 4,878 cases. During the course of the year, the Departments concerned accepted underassessments and other deficiencies of ₹ 33.83 crore involved in 637 cases of which 78 cases involving ₹ 30.68 crore were pointed out in audit during 2011-12 and the rest in the earlier years. The Departments collected ₹ 3.79 crore in 326 cases during 2011-12 of which 44 cases involving ₹ 25.79 lakh were pointed out in audit during 2011-12 and the rest in the earlier years.

1.5.2 This report

This Report contains 56 paragraphs including one Performance Audit on “**Working of Stamps and Registration Department**” relating to short/non-levy of tax, duty, interest and penalty etc., involving financial effect of ₹ 857.95 crore. The Departments/Government have accepted audit observations involving ₹ 438.41 crore out of which ₹ 2.60 crore has been recovered. The replies in the remaining cases have not been received (February 2013). These cases are discussed in the succeeding Chapters II to VII.