

PART 'B'
Revenue Sector

CHAPTER-3
General
(Revenue Sector)

CHAPTER-3: GENERAL

3.1 Introduction

This Chapter presents the overview of trend of receipts raised by the Government of Uttar Pradesh and the arrears of taxes pending collection against the backdrop of audit findings.

3.2 Trend of receipts

3.2.1 The tax and non-tax revenue raised by the Government of Uttar Pradesh, the State's share of the net proceeds of the divisible Union taxes and duties assigned to States, grants-in-aid received from the Government of India during 2016-17, and the corresponding figures for the preceding four years are presented in **Table - 3.1**.

Table - 3.1

Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenues raised by the State Government					
	• Tax Revenue	58,098.36	66,582.08	74,172.42	81,106.26	85,965.92
	• Non-tax Revenue	12,969.98	16,449.80	19,934.80	23,134.65	28,944.07
	Total	71,068.34	83,031.88	94,107.22	1,04,240.91	1,14,909.99
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	57,497.86	62,776.70	66,622.91	90,973.69	1,09,428.29 ¹
	• Grants-in-aid	17,337.79	22,405.17	32,691.47	31,861.34	32,536.87
	Total	74,835.65	85,181.87	99,314.38	1,22,835.03	1,41,965.16
3.	Total revenue receipts of the State Government (1 and 2)	1,45,903.99	1,68,213.75	1,93,421.60	2,27,075.94	2,56,875.15
4.	Percentage of 1 to 3	49	49	49	46	45

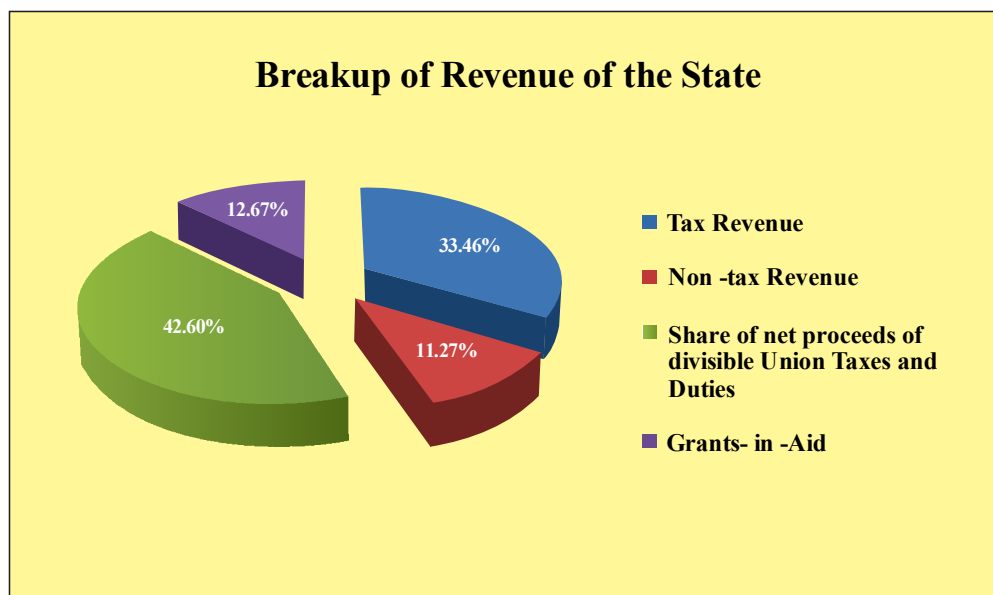
(Source: Finance Accounts of the Government of Uttar Pradesh)

The State's share in central taxes increased following the implementation (from 2015-16) of the recommendations of the 14th Finance Commission to increase the State's share by 10 *per cent* (from 32 to 42 *per cent*).

The breakup of revenue receipts of the State for the year 2016-17 in terms of percentage is shown in **Chart – 3.1**.

¹ For details, please see Statement No. 14 - Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Uttar Pradesh for the year 2016-17. 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, minor head - 901 - 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 net proceeds of divisible Union taxes' in this statement.

Chart - 3.1



3.2.2 Details of the tax revenue raised during the period 2012-13 to 2016-17 are given in Table - 3.2.

Table - 3.2

Details of tax revenue

₹ in crore)								
Sl. No.	Head of revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+) or decrease (-) in actuals of 2016-17 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2016-17	Actuals of 2015-16
1.	Tax on Sales, Trade, etc.	<u>38,492.18</u> 34,870.16	<u>43,936.00</u> 39,645.45	<u>47,497.92</u> 42,931.54	<u>52,670.69</u> 47,692.40	<u>57,940.30</u> 51,882.88	(-) 10.45	(+) 8.79
2.	State Excise	<u>10,068.28</u> 9,782.49	<u>12,084.00</u> 11,643.84	<u>14,500.00</u> 13,482.57	<u>17,500.00</u> 14,083.54	<u>19,250.00</u> 14,273.49	(-) 25.85 ²	(+) 1.35
3.	Stamps and Registration Fees	<u>9,308.00</u> 8,742.17	<u>10,555.00</u> 9,520.92	<u>12,722.67</u> 11,803.34	<u>14,836.00</u> 12,403.72	<u>16,319.60</u> 11,564.02	(-) 29.14 ³	(-) 6.77
4.	Taxes on Vehicles, Goods and Passengers (0041 & 0042)	<u>3,093.90</u> 2,993.96	<u>3,713.00</u> 3,442.01	<u>3,950.00</u> 3,797.58	<u>4,658.00</u> 4,410.53	<u>5,123.80</u> 5,148.37	(+) 0.48	(+) 16.73
5.	Others ⁴	<u>1,094.68</u> 1,709.58	<u>1,905.00</u> 2,329.86	<u>2,327.34</u> 2,157.39	<u>2,250.31</u> 2,516.07	<u>2,622.80</u> 3,097.16	(+) 18.09	(+) 23.10
Total		<u>62,057.04</u> 58,098.36	<u>72,193.00</u> 66,582.08	<u>80,997.93</u> 74,172.42	<u>91,915.00</u> 81,106.26	<u>1,01,256.50</u> 85,965.92	(-) 15.10	(+) 5.99

(Source: Finance Accounts of the Government of Uttar Pradesh and budget estimates as per the Statement of Revenue and Receipts of Government of Uttar Pradesh)

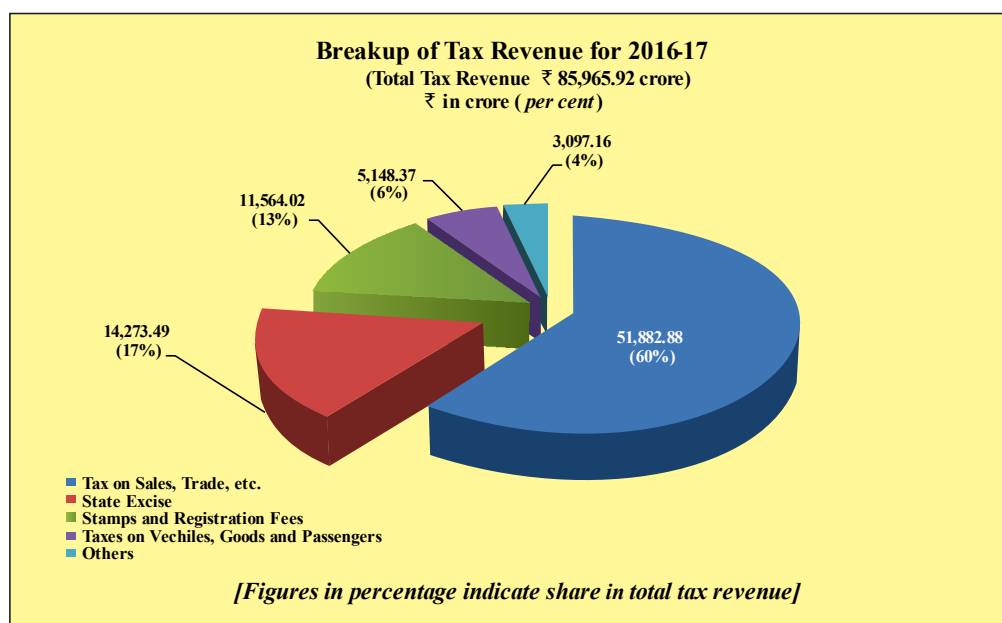
The breakup of tax revenue for the year 2016-17 is shown in Chart - 3.2.

² Decrease was due to non-receipt of License Fee/ Basic License Fee from shops shifted 500 meters away from National/ State Highways in light of the Apex Court's judgment dated 15 December 2016.

³ Decrease was due to reduction in real estate transactions post-demonetisation.

⁴ Includes receipts (less than five per cent of tax revenue) from the following : Taxes and duties on Electricity, Land Revenue, Hotel Receipt Tax, Entertainment Tax and Betting Tax.

Chart - 3.2



3.2.3: Details of the non-tax revenue raised during the period 2012-13 to 2016-17 are indicated in **Table - 3.3**.

Table - 3.3

Details of non-tax revenue

(₹ in crore)								
Sl. No.	Head of revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+) or decrease (-) in actuals of 2016-17 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2016-17	Actuals of 2015-16
1.	Miscellaneous General Services	<u>3,264.23</u> 4,494.11	<u>2,970.98</u> 3,194.28	<u>4,037.81</u> 6,400.41	<u>4,774.00</u> 4,949.22	<u>4,220.61</u> 4,460.40	(+) 5.68	(-) 9.88
2.	Education, Sports, Art and Culture	<u>5,410.00</u> 4,211.69	<u>5,852.75</u> 6,414.09	<u>6,887.18</u> 5,798.52	<u>7,600.00</u> 10,652.08	<u>11,170.31</u> 14,092.31	(+) 26.16	(+) 32.30 ⁵
3.	Non-Ferrous Mining and Metallurgical Industries	<u>954.00</u> 722.13	<u>1,000.00</u> 912.52	<u>1,100.00</u> 1,029.42	<u>1,500.00</u> 1,222.17	<u>1,650.00</u> 1,548.39	(-) 6.16	(+) 26.69 ⁶
4.	Power	<u>90.00</u> 72.80	<u>270.00</u> 1,060.81	<u>2,700.00</u> 967.87	<u>2,700.00</u> 1,322.17	<u>2,700.00</u> 2,938.85	(+) 8.85	(+) 122.27 ⁷
5.	Other Non-tax receipts ⁸	<u>4,455.59</u> 3,469.25	<u>3,088.75</u> 4,868.10	<u>5,506.96</u> 5,738.58	<u>5,062.32</u> 4,989.01	<u>4,499.93</u> 5,904.12	(+) 31.20	(+) 18.34
	Total	<u>14,173.82</u> <u>12,969.98</u>	<u>13,182.48</u> <u>16,449.80</u>	<u>20,231.95</u> <u>19,934.80</u>	<u>21,636.32</u> <u>23,134.65</u>	<u>24,240.85</u> <u>28,944.07</u>	(+) 19.40	(+) 25.11

(Source: Finance Accounts of the Government of Uttar Pradesh and budget estimates as per the Statement of Revenue and Receipts of Government of Uttar Pradesh)

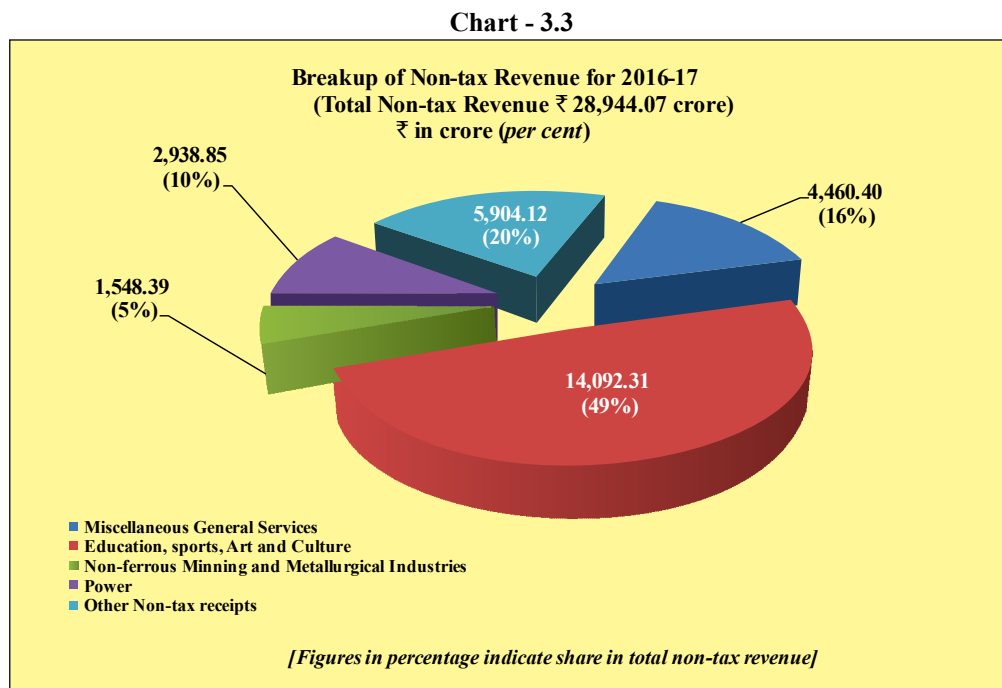
⁵ Increase was due to reimbursement of salary disbursed under *Sarv Shiksha Abhiyan*.

⁶ Increase was due to increase in rates of royalty.

⁷ Increase was due to receipt of share capital from the Government of India for the Uttar Pradesh Power Corporation Limited (UPPCL) for rural electrification.

⁸ Others includes receipts (less than five per cent of non-tax revenue) from the following: Interest receipts, Roads & Bridges, Other Administrative Services, Medium Irrigation, Village and Small Industries, Forestry and Wild Life, Medical and Public Health, Urban Development, etc.

The breakup of non-tax revenue for the year 2016-17 is shown in **Chart - 3.3**.



Audit noted wide variations between the budget estimates prepared by the Finance Department and the actual revenues (Tables 1.2 and 1.3 refer). The Finance Department unilaterally increased the budget estimates of Administrative departments of previous year by 10 *per cent* and fixed the same for the year without considering the BEs proposed by the Administrative departments for the current year. The reasons for such erroneous fixation could not be assessed as the Finance Department refused to produce the budget files to Audit (**Appendix-I**). Such non-production of files violates the Constitutional mandate of the Comptroller and Auditor General of India as enshrined in Section 18 (1) (b) of the DPC Act, 1971 and Regulation 181 of the Regulations on Audit and Accounts, 2007.

Recommendation:

The Finance Department should allow access to Audit to records relating to the preparation of the budget, and also revisit their budgeting methods to make the budget estimates more realistic.

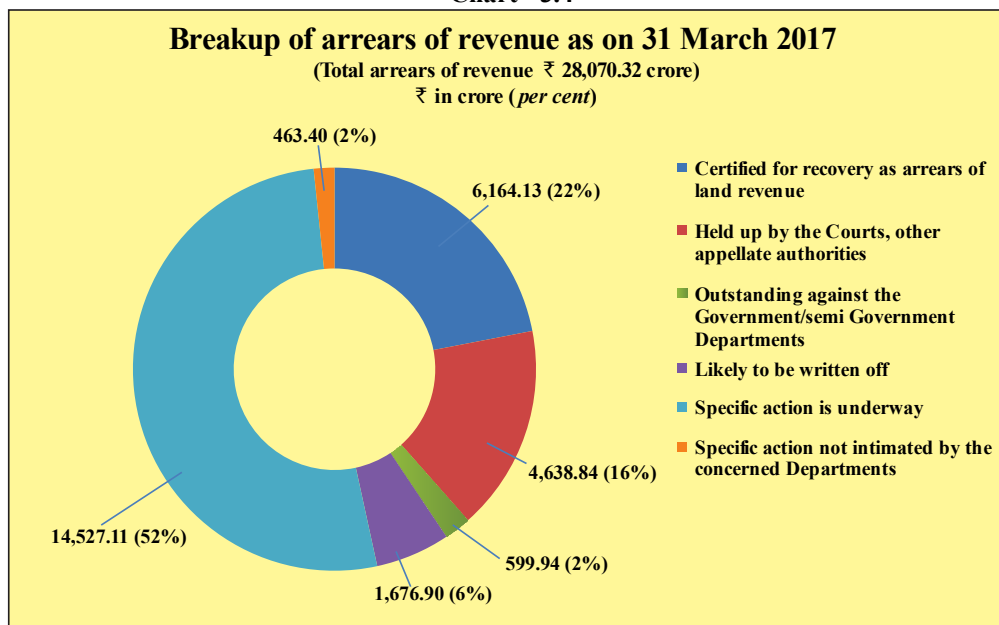
3.3 Analysis of arrears of revenue

Arrears of revenue as on 31 March 2017 in respect of some principal heads of revenue amounted to ₹ 28,070.32 crore⁹, of which ₹ 11,863.23¹⁰ crore were outstanding for more than five years. Details as provided by the departments are given in **Chart - 3.4**.

⁹ Tax on Sales, Trade, etc.: ₹ 27,214.14 crore; Stamps and Registration Fees: ₹ 373.63 crore; Taxes on Vehicles, Goods and Passengers: ₹ 93.37 crore; State Excise: ₹ 53.18 crore; Entertainment Tax: ₹ 336.00 crore.

¹⁰ Tax on Sales, Trade, etc.: ₹ 11,803.03 crore; Stamps and Registration Fees: not available with the Department; Taxes on Vehicles, Goods and Passengers: not available with the Department; State Excise: ₹ 52.18 crore; Entertainment Tax: ₹ 8.02 crore.

Chart - 3.4



A detailed analysis of Arrears of Revenue was made in audit on “System of collection of arrears of revenue in Commercial Tax Department in Uttar Pradesh” and pointed out in paragraph No. 4.4 of the Audit Report (Revenue Sector) for the year ending 31 March 2016 which *inter alia* recommended posting of a Tax Recovery Officer in every district, evolving a system for timely issuing the RRCs, and deployment of manpower in accordance with the sanctioned strengths of the respective departments for ensuring effective recovery of the arrears of revenue.

At ₹ 28,070.32 crore, the total arrears in revenue at the end of 2016-17 constituted 24.42 per cent of the total revenue receipts of the state (₹ 1,14,909.99 crore) of which 42.26 per cent (₹ 11,863.23 crore) of the arrears were pending recovery for periods of five years or more. This is indicative of lax revenue administration and non-compliance in the State. The quantum of arrears is unsustainably large and calls for concerted efforts at recovery of the same.

Audit examined the files and records of departments concerned to ascertain the reasons for pendency in collection of arrears. The departments intimated pendency at different stages, but individual records relating to outstanding arrears were not made available for examination. The details of arrears of revenue were not available with the Geology and Mining Department. There was no mechanism to monitor the progress of collection of arrears or to assess reasons for accumulation of arrears in the departments¹¹. Further, the departments do not maintain any centralised database of outstanding arrears. Figures of outstanding arrears were compiled each year, at the instance of Audit, from the data furnished by the field units.

Recommendation:

The departments should create a centralised database of outstanding arrears and introduce a mechanism to monitor the progress of arrears on a periodic basis. The reasons for accumulation of arrears should also be

¹¹ Commercial Tax, State Excise, Transport, Stamps and Registration, Entertainment Tax and Geology and Mining.

analysed and mechanisms/ procedures developed to prevent any further accumulation of arrears.

3.4 Follow up on the Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt with in various Audit Reports (ARs), the Department of Finance issued instructions in June 1987 to initiate *suo motu* 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. Significant delays were observed in submission of explanatory notes (replies of the departments) itself, with delays ranging between one month and 43 months in respect of 205 paragraphs (including performance audits) appearing in the CAG's Revenue Audit reports for the year ended 31 March 2012, 2013, 2014, 2015 and 2016 placed before the State Legislative Assembly between September 2013 and May 2017. Details of pending explanatory notes pertaining to various departments¹² are given in **Table - 3.4**.

Table - 3.4

Sl. No.	Audit Report ending on	Date of presentation in the legislature	Number of paragraphs	Number of paragraphs where explanatory notes received	Number of paragraphs where explanatory notes not received
1	31 March 2012	16 September 2013	56	56	00
2	31 March 2013	20 June 2014	49	32	17
3	31 March 2014	17 August 2015	43	17	26
4	31 March 2015	06 March 2016	31	00	31
5	31 March 2016	18 May 2017	26	26	00
Total			205	131	74

In 2016-17 (between May 2016 and June 2016), the PAC discussed 79 selected paragraphs pertaining to the Audit Reports for the years from 2011-12 to 2013-14. However, Action Taken Notes (ATNs) have not been received in respect of these paragraphs from the concerned departments as mentioned in **Table - 3.5**.

Table - 3.5

Year	Name of the Department	Total
2011-12	Commercial Tax, State Excise, Transport, Stamp and Registration, Geology and Mining, Medical, Health and Family Welfare/ Forest, Weight and Measurement	54
2012-13	State Excise, Transport, Geology and Mining, Weight and Measurement	18
2013-14	State Excise, Commercial Tax	07
Total		79

(Source: Information available in the audit office)

¹² Commercial Tax (25 paragraphs), State Excise (3 paragraphs), Transport (17 paragraphs), Stamps and Registration (10 paragraphs), Geology and Mining (14 paragraphs) and Entertainment Tax (5 paragraphs).

Recommendation:

The State Government should ensure that all departments promptly prepare ATNs on recommendations of PAC.

3.5 Response of the Departments/ Government towards Audit

On completion of audit of Government departments and offices, Audit issues Inspection Reports (IRs) to the concerned head of offices, with copies to their superior officers for corrective action and their monitoring. Serious financial irregularities are reported to Heads of the departments and the Government.

Review of IRs issued up to December 2016 revealed that 41,138 paragraphs relating to 11,943 IRs remained outstanding at the end of June 2017. The potentially recoverable revenue brought out in these IRs is as much as ₹ 6,898.44 crore whereas the total revenue collection of the State is ₹ 1,14,909.99 crore. Department-wise details relating to revenue sector of the State Government are given in **Table - 3.6**.

Table - 3.6

Department-wise details of Inspection Reports

(₹ in crore)					
Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Finance	Tax on Sales, Trade, etc.	5,454	24,113	3,694.75
		Entertainment tax	177	419	17.97
2.	State Excise	State Excise	1,021	1,807	878.59
3.	Transport	Taxes on vehicles	1,299	5,282	825.22
4.	Stamps and Registration	Stamps and registration fees	3,806	8,701	708.10
5.	Geology and Mining	Non-ferrous mining and metallurgical industries	186	816	773.81
Total			11,943	41,138	6,898.44

(Source: Information available in the audit office)

Even the first replies, required to be received from the heads of offices within one month from the date of issue of IRs, were not received in time. Audit received first reply from the heads of offices in case of one IR within one month, in respect of 89 IRs between one to six months and in respect of 52 IRs beyond six months. The first replies had not been received in case of 451 IRs out of 593 IRs issued during 2016-17. This large pendency of the IRs and non-receipt of first replies from the departments is indicative of the fact that the Heads of auditee units have failed to take cognisance of the reported audit findings and initiate any corrective action in their respect. The lack of interest of the Executive in audit is also evident from the fact that irregularities of similar nature are being reported year after year with no improvement/evidence of any corrective action by the concerned departments visible at the ground level. This adversely affected effectiveness of Audit.

Recommendation:

The State Government should introduce a mechanism to ensure that the departmental officers respond to IRs promptly, take corrective action, and work closely with Audit to bring about early settlement of IRs.

3.6 Results of audit

Position of local audit conducted during the year

The audit covered six departments¹³ of the State Government and test checked the records of 569 out of 2,352 auditable units (24 *per cent*) relating to tax on sales, trade, etc., state excise, taxes on vehicles, goods and passengers, stamps and registration fees, entertainment tax and mining receipts during the year 2016-17. Besides, audit of 14 District Excise Offices was also undertaken between October 2016 and June 2017. Further, this was a test audit. In six departments revenue of ₹ 80,507.85 crore was collected during 2015-16, out of which the 569 audited units collected ₹ 38,139.48 crore (47 *per cent*). In 569 audited units, records were test checked on the basis of turnover/ tax payments which revealed underassessment/ short levy/ loss of revenue aggregating to ₹ 2246.74 crore (six *per cent*) in 3,061 paragraphs. The departments concerned accepted underassessment and other deficiencies of ₹ 9.12 crore in 593 cases pointed out by audit. The departments also effected recovery of ₹ 2.72 crore in 336 cases.

Recommendation:

The State Government should evolve a mechanism to ensure that departments recover all under-assessments/ short levies pointed out by Audit and accepted by the departments.

3.7 Coverage of this part of the Report

This part of the Report contains 15 paragraphs from the local audits conducted during the year and those of earlier years which could not be included in the previous reports involving financial effect of ₹ 1751.89 crore.

Most of the audit observations are of a nature that may reflect similar errors/ omissions in other units of the State Government departments, but not covered in the test audit.

The Departments/ Government may therefore like to internally examine all the other units by them with a view to ensuring that they are functioning as per requirement and rules.

The departments have accepted audit observations involving ₹ 1,535.14 crore and recovered ₹ 80.46 lakh. These are discussed in the succeeding Chapters-4 to 7.

¹³ Commercial Tax, State Excise, Transport, Stamps and Registration, Entertainment Tax and Geology and Mining.