

## CHAPTER-I: GENERAL

### 1.1 Introduction

This Chapter presents an overview of the trend of revenue receipts of the Government of Uttar Pradesh (GoUP), and the arrears of revenue, both tax and non-tax, pending collection against the backdrop of the audit findings.

### 1.2 Trend of receipts

**1.2.1** The tax and non-tax revenue raised by the GoUP, 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 (GoI) during the year 2018-19, and the corresponding figures for the preceding four years are presented in **Table - 1.1**.

**Table - 1.1**  
**Trend of revenue receipts**

(₹ in crore)						
Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1	<b>Revenues raised by the State Government</b>					
	• Tax Revenue	74,172.42	81,106.26	85,965.92	97,393.00	1,20,121.86
	Percentage of growth compared to previous year	11.40	9.35	5.99	13.29	23.34
	• Non-tax Revenue	19,934.80	23,134.65	28,944.07	19,794.86	30,100.71
	Percentage of growth compared to previous year	21.19	16.05	25.11	(-) 31.60	52.06
	<b>Total</b>	<b>94,107.22</b>	<b>1,04,240.91</b>	<b>1,14,909.99</b>	<b>1,17,187.86</b>	<b>1,50,222.57</b>
2	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	66,622.91	90,973.69	1,09,428.29	1,20,939.14	1,36,766.46 <sup>1</sup>
	• Grants-in-aid	32,691.47	31,861.34	32,536.87	40,648.45	42,988.48 <sup>2</sup>
	<b>Total</b>	<b>99,314.38</b>	<b>1,22,835.03</b>	<b>1,41,965.16</b>	<b>1,61,587.59</b>	<b>1,79,754.94</b>
3	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>1,93,421.60</b>	<b>2,27,075.94</b>	<b>2,56,875.15</b>	<b>2,78,775.45</b>	<b>3,29,977.51</b>
4	<b>Percentage of 1 to 3</b>	<b>49</b>	<b>46</b>	<b>45</b>	<b>42</b>	<b>46</b>

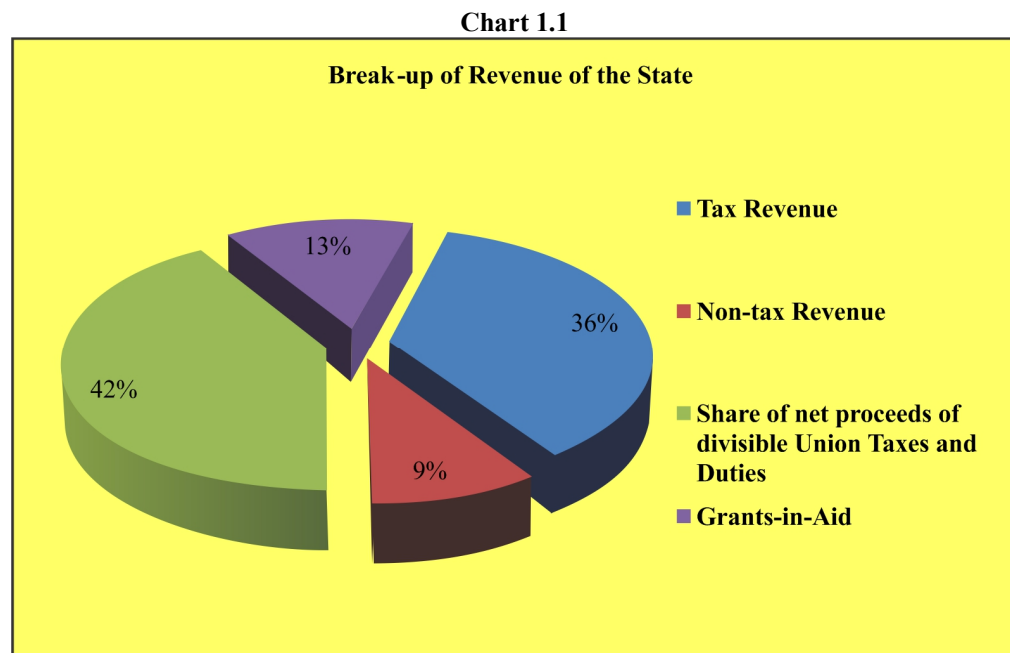
Source: Finance Accounts of the Government of Uttar Pradesh.

The above table indicates that the average annual growth rate in respect of tax revenue and non-tax revenue were 12.67 *per cent* and 16.56 *per cent* respectively during the period 2014-19.

<sup>1</sup> For details, please see Statement No. 14 - Detailed accounts of revenue by the minor heads in the Finance Accounts of the Government of Uttar Pradesh for the year 2018-19. Figures under the major heads 0005 - Central Goods and Services Tax, 0008 - Integrated Goods and Services Tax, 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 and duties' in this statement.

<sup>2</sup> Includes compensation of ₹ 308 crore towards loss of revenue arising out of the implementation of the Goods and Services Tax.

The break-up of revenue receipts of the State for the year 2018-19 in terms of percentage is shown in **Chart – 1.1**.



**1.2.2** Details of the tax revenue raised during the period 2014-15 to 2018-19 are given in **Table - 1.2**.

**Table - 1.2**  
**Details of tax revenue**

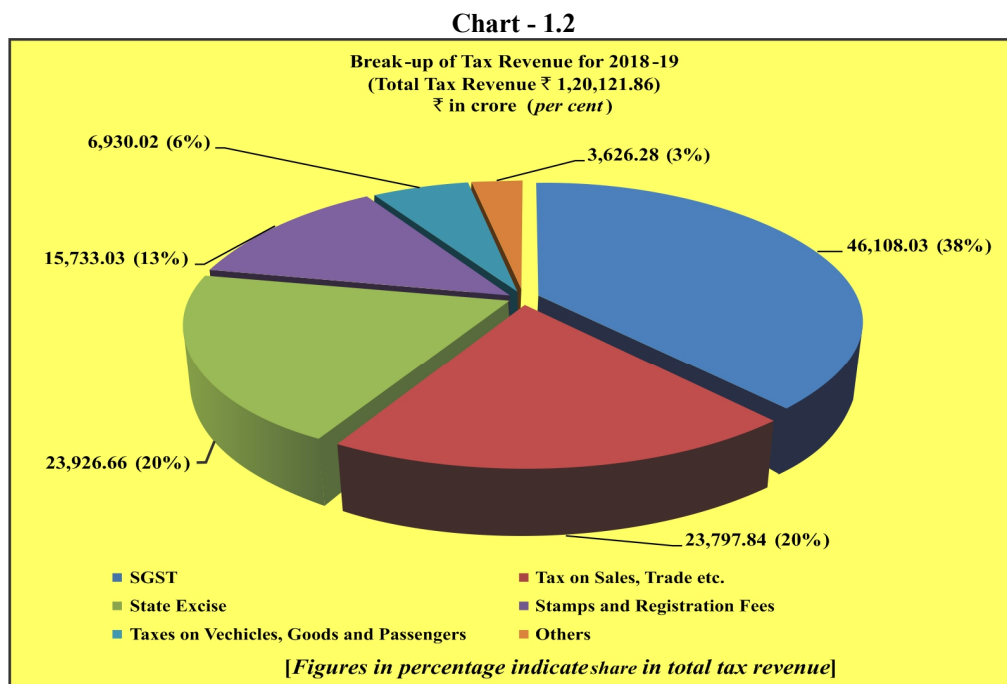
(₹ in crore)								
Sl. No.	Head of revenue	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage of increase (+) or decrease (-) in actuals of 2018-19 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2018-19	Actuals of 2017-18
1	Tax on Sales, Trade etc.	47,497.92 42,931.54	52,670.69 47,692.40	57,940.30 51,882.88	36,397.30 31,112.52	22,078.00 23,797.84	(+) 7.79	(-) 23.51
	State Goods and Services Tax (SGST)				28,602.70 25,373.96	49,422.00 46,108.03	(-) 6.71	(+) 81.71 <sup>3</sup>
2	State Excise	14,500.00 13,482.57	17,500.00 14,083.54	19,250.00 14,273.49	20,593.23 17,320.27	23,000.00 23,926.66	(+) 4.03	(+) 38.14
3	Stamps and Registration Fees	12,722.67 11,803.34	14,836.00 12,403.72	16,319.60 11,564.02	17,458.34 13,397.57	18,000.00 15,733.03	(-) 12.59	(+) 17.43
4	Taxes on Vehicles, Goods and Passengers (0041 & 0042)	3,950.00 3,797.58	4,658.00 4,410.53	5,123.80 5,148.37	5,481.20 6,403.69	7,400.00 6,930.02	(-) 6.35	(+) 8.22
5	Others <sup>4</sup>	2,327.34 2,157.39	2,250.31 2,516.07	2,622.80 3,097.16	2,969.13 3,784.99	2,800.00 3,626.28	(+) 29.51	(-) 4.19
<b>Total</b>		<b>80,997.93</b> <b>74,172.42</b>	<b>91,915.00</b> <b>81,106.26</b>	<b>1,01,256.50</b> <b>85,965.92</b>	<b>1,11,501.90</b> <b>97,393.00</b>	<b>1,22,700.00</b> <b>1,20,121.86</b>	<b>(-) 2.10</b>	<b>(+) 23.34</b>

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

<sup>3</sup> SGST collection in the year 2018-19 was for the whole year against nine months (July 2017 to March 2018) in the year 2017-18.

<sup>4</sup> Includes receipts (less than five *per cent* of tax revenue) from the following:  
Taxes and duties on Electricity, Land Revenue, Hotel Receipt Tax, Other Taxes and Duties on Commodities and Services etc.

The break-up of tax revenue for the year 2018-19 is shown in **Chart - 1.2**.



Reasons for wide variation in actual receipts during the year 2018-19 over the previous year are discussed below:

- The overall growth of 23.34 *per cent* in own tax revenue during the year 2018-19 was mainly due to increase in 'State Goods and Services Tax (SGST)' (by ₹ 20,734.07 crore), 'State Excise' (by ₹ 6,606.40 crore), 'Stamps and Registration Fees' (by ₹ 2,335.46 crore), and 'Taxes on Vehicles, Goods and Passengers' (by ₹ 526.33 crore).
- Tax on Sales, Trade etc. decreased by ₹ 7,314.68 crore during the year 2018-19 in comparison to the previous year, as this tax was subsumed in Goods and Services Tax (GST) which was implemented from 1 July 2017. However, SGST collection increased by ₹ 20,734.07 crore during the year 2018-19. SGST collection in the year 2018-19 was for the whole year against nine months (July 2017 to March 2018) in the year 2017-18. The main reason for the increased SGST collection was increase in receipts by transfer/advance apportionment from Integrated GST (IGST) and input tax credit cross utilisation of SGST and IGST.
- The growth in 'State Excise' was due to increase in the receipts from the sale of country spirits (by ₹ 2,722.39 crore), foreign liquor and spirits (by ₹ 2,659.98 crore) and malt liquor (by ₹ 1,474.67 crore). The growth in State Excise revenue was due to increased consumption of country liquor, Indian Made Foreign Liquor (IMFL) and beer, increase in levy of Excise duty and increase in the settlement of shops in respect of country liquor, IMFL, beer and model shops.
- The receipts under 'Stamps and Registration Fees' increased mainly due to net effect of increase in the receipts on account of sale of non-judicial stamps (₹ 4,084.38 crore) and decrease due to less sale of judicial stamps (₹ 1,616.37 crore). Receipts from sale of non-judicial stamps increased due to registration of 35.81 lakh documents/deeds in the year 2018-19 in comparison to 30.77 lakh documents/deeds registered in the previous year.

- The increase of receipts under ‘Taxes and duties on Electricity (from ₹ 2,124.13 crore in 2017-18 to ₹ 2,978.22 crore in 2018-19) was due to more collection of taxes on consumption and sale of electricity (₹ 738.10 crore).

1.2.3 Details of the non-tax revenue raised during the period 2014-15 to 2018-19 are indicated in **Table - 1.3**.

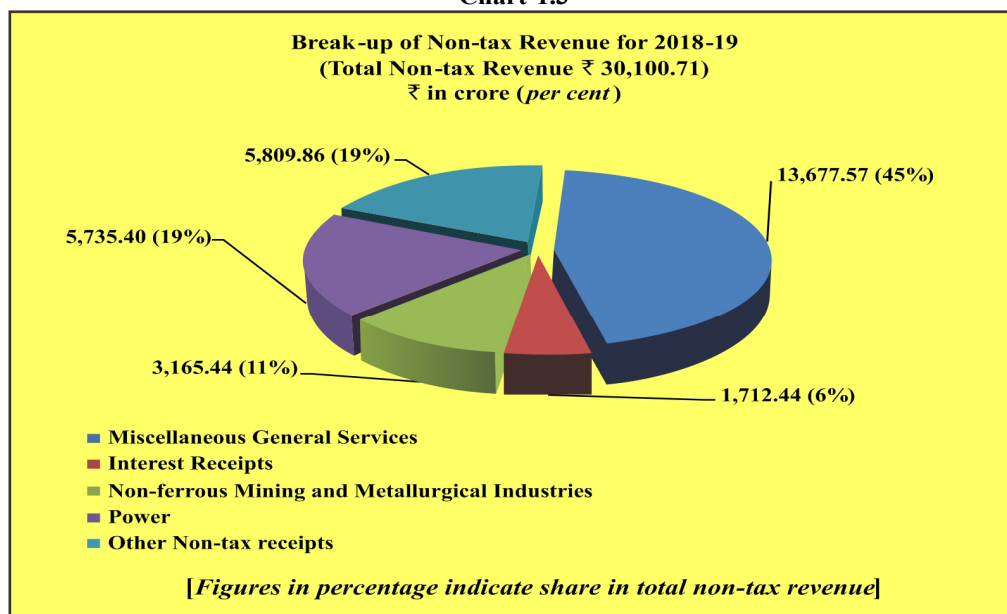
**Table - 1.3**  
**Details of non-tax revenue**

(₹ in crore)								
Sl. No.	Head of revenue	2014-15	2015-16	2016-17	2017-18	2018-19	Percentage of increase (+) or decrease (-) in actuals of 2018-19 in comparison to	
		<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	BE of 2018-19	Actuals of 2017-18
1	Miscellaneous General Services	4,037.81 6,400.41	4,774.00 4,949.22	4,220.61 4,460.40	4,502.00 4,841.11	12,758.33 13,677.57	(+) 7.21	(+) 182.53
2	Interest Receipts	1,434.90 2,302.82	1,000.00 632.78	750.00 1,164.94	800.00 1,093.38	843.60 1,712.44	(+) 102.99	(+) 56.62
3	Non-ferrous Mining and Metallurgical Industries	1,100.00 1,029.42	1,500.00 1,222.17	1,650.00 1,548.39	3,200.00 3,258.88	4,000.00 3,165.44	(-) 20.86	(-) 2.87
4	Power	2,700.00 967.87	2,700.00 1,322.17	2,700.00 2,938.85	4,448.34 4,695.85	5,700.00 5,735.40	(+) 0.62	(+) 22.14
5	Other Non-tax receipts <sup>5</sup>	10,959.24 9,234.28	11,662.32 15,008.31	10,959.24 18,831.49	5,486.37 5,905.64	5,519.73 5,809.86	(+) 5.26	(-) 1.62
<b>Total</b>		<b>20,231.95</b> <b>19,934.80</b>	<b>21,636.32</b> <b>23,134.65</b>	<b>24,240.85</b> <b>28,944.07</b>	<b>18,436.71</b> <b>19,794.86</b>	<b>28,821.66</b> <b>30,100.71</b>	(+) 4.44	(+) 52.06

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 break-up of non-tax revenue for the year 2018-19 is shown in **Chart-1.3**

**Chart-1.3**



<sup>5</sup> Others includes receipts (less than five *per cent* of non-tax revenue) from the following: Housing, Public Works, Stationery and Printing, Social Security and Welfare, Roads & Bridges, Other Administrative Services, Medium Irrigation, Village and Small Industries, Forestry and Wild Life, Medical and Public Health, Urban Development, etc.

Reasons for wide variation in actual receipts during the year 2018-19 over the previous year are discussed below:

- There was overall increase of 52.06 *per cent* in non-tax receipts amounting to ₹ 10,305.85 crore during the year 2018-19 over 2017-18, mainly under the head 'Interest Receipts' which was due to more interest realised from loans to sugar mills and investment of cash balances and under 'Miscellaneous General Services' which was mainly due to more transfer of ₹ 8,271.28 crore from Sinking Fund to this head during the year 2018-19 in comparison to that in 2017-18.
- The increase under revenue head 'Power' by 22.14 *per cent* was due to the increased receipts from the GoI to the Energy Department, GoUP for rural electrification.

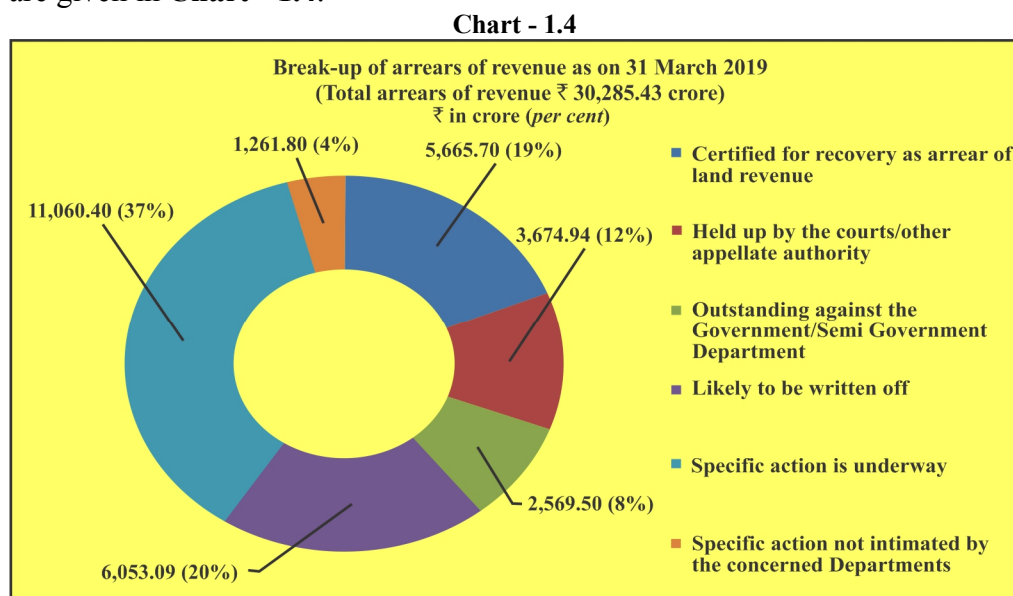
Further, Audit noted wide variations between the budget estimates approved by the Finance Department and actual revenues during the year 2018-19 under the different heads of revenue (refer Table 1.2 and 1.3) which indicated that the budget estimates were not prepared on a realistic basis.

#### Recommendation:

**The Finance Department should revisit their budgeting methods to make the budget estimates more realistic.**

### 1.3 Analysis of arrears of revenue

Arrears of revenue as on 31 March 2019 in respect of some principal heads of revenue amounted to ₹ 30,285.43 crore<sup>6</sup>, of which ₹ 13,129.57 crore<sup>7</sup> were outstanding for more than five years. Details as provided by the Departments are given in **Chart - 1.4**.



<sup>6</sup> Tax on Sales, Trade etc.: ₹ 28,987.75 crore; Stamps and Registration Fees: ₹ 654.73 crore; Taxes on Vehicles, Goods and Passengers: ₹ 108.34 crore; State Excise: ₹ 54.57 crore; Entertainment Tax: ₹ 480.04 crore; Geology and Mining Department: figures were not available with the Department.

<sup>7</sup> Tax on Sales, Trade etc.: ₹ 12,668.82 crore; Stamps and Registration Fees: ₹ 399.22 crore; Taxes on Vehicles, Goods and Passengers: figures were not available with the Department; State Excise: ₹ 51.41 crore; Entertainment Tax: ₹ 10.12 crore; Geology and Mining Department: figures were not available with the Department.

At ₹ 30,285.43<sup>8</sup> crore, the total arrears in revenue at the end of 2018-19 constituted 20 *per cent* of the total revenue receipts of the State (₹ 1,50,222.57 crore) of which 43 *per cent* (₹ 13,129.57<sup>9</sup> 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 for recovery of the same.

Only the two Departments<sup>10</sup> intimated pendency at different stages out of the six Departments<sup>11</sup>, but individual records relating to outstanding arrears were not made available for examination. Further, the Departments<sup>12</sup> did not maintain any centralised database of outstanding arrears. Figures of outstanding arrears were compiled by the concerned Departments each year, at the instance of Audit, from the data furnished by their respective field units.

For study of defaulters of arrears of revenue, Audit test checked the list of 200 major defaulters provided by the Commercial Tax Department (CTD), having arrears of revenue of ₹ 4,479.19 crore in the CTD. Out of these 200 cases, 168 cases of defaulters pertaining to four Zones *viz* Ghaziabad, Gautam Buddh Nagar, Kanpur and Lucknow having arrears of revenue of ₹ 3,960.13 crore were selected for detailed study. The study revealed that:

- i. In 160 cases out of 168 cases of defaulters selected involving arrears of revenue of ₹ 3,794.75 crore (96 *per cent*), it was observed that *ex-parte* assessment orders were passed by the Assessing Authorities due to non-appearance of the dealers.
- ii. In 92 cases of defaulters involving arrear of revenue of ₹ 2,837.83 crore (72 *per cent*), it was observed that the recoveries were pending before various Appellate Authorities/Courts.
- iii. In case of two defaulters, it was noticed that Recovery Certificates (RCs) were issued twice in each case which resulted in duplicate arrears of revenue of ₹ 35.48 crore in the list of arrears.
- iv. In case of five defaulters involving RCs amounting to ₹ 86.69 crore, the cases were re-opened after being remanded back by the Appellate Authorities or on the application of the dealers, but RCs continued to be reflected in the list of arrears.
- v. In case of two defaulters, RCs of ₹ 29.11 crore had been pending for deletion for more than four years after these cases were decided in favour of the dealers by the Appellate Authorities and it continued to be reflected in the list of arrears.
- vi. In case of one defaulter, an excess arrear of revenue of ₹ 75.60 crore was shown due to a calculation mistake in the assessment order.

From the above it is noted that a large percentage of arrears of revenue were lying in appeal and pending. It was also observed that the database maintained by the CTD on arrears of revenue suffered from numerous infirmities casting

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<sup>8</sup> Excluding Geology and Mining Department.

<sup>9</sup> Excluding Transport Department, Geology and Mining Department.

<sup>10</sup> Commercial Tax and State Excise.

<sup>11</sup> Commercial Tax, State Excise, Transport, Stamps and Registration, Entertainment Tax and Geology and Mining.

<sup>12</sup> Commercial Tax, State Excise, Transport, Stamps and Registration, Entertainment Tax and Geology and Mining.

doubts on the integrity of data. Poor data quality would impact follow-up and recovery.

**Recommendation:**

**The Departments should create a centralised database of outstanding arrears addressing issues relating to integrity of the data and monitor the progress of arrears on a periodic basis. The reasons for accumulation of the arrears should also be analysed and mechanisms/procedures developed to prevent any further accumulation of arrears.**

**1.4 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 193 days and 809 days in respect of 36 Paragraphs (including Performance Audits) appearing in the CAG's Revenue Audit Reports for the year ended 31 March 2014. Moreover, explanatory notes were not received (September 2020) for Audit Reports for the years 2014-15, 2015-16, 2016-17 and 2017-18 which were placed before the State Legislative Assembly between August 2015 and February 2020. Details of pending explanatory notes pertaining to the various Departments are given in **Table - 1.4**.

**Table - 1.4**

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 2014	17 August 2015	43	36 <sup>13</sup>	07
2	31 March 2015	06 March 2016	31	00	31
3	31 March 2016	18 May 2017	26	00	26
4	31 March 2017	19 July 2019	15	00	15
5	31 March 2018 (Stand Alone, State Excise)	19 July 2019	08	00	08
6	31 March 2018	24 February 2020	17	00	17
<b>Total</b>			<b>140</b>	<b>36</b>	<b>104<sup>14</sup></b>

In the year 2018-19, the PAC discussed 47<sup>15</sup> selected paragraphs pertaining to the Audit Reports for the years 2001-02, 2007-08 and 2010-11 to 2013-14. However, Action Taken Notes (ATNs) have not been received in respect of

<sup>13</sup> Commercial Tax (11 paragraphs), State Excise (06 paragraphs), Transport (10 paragraphs), Geology and Mining (06 paragraphs) and Entertainment Tax (03 paragraphs).

<sup>14</sup> Commercial Tax (24 paragraphs), State Excise (22 paragraphs), Transport (19 paragraphs), Stamps and Registration (16 paragraphs), Geology and Mining (18 paragraphs) and Entertainment Tax (05 paragraphs).

<sup>15</sup> Commercial Tax (04 paragraphs), State Excise (03 paragraphs), Transport (19 paragraphs), Stamps and Registration (04 paragraphs), Geology and Mining (14 paragraphs) and Entertainment Tax (03 paragraphs).



these paragraphs from the concerned Departments (September 2020). Audit Reports for the years 2014-15 to 2017-18 have not been discussed in PAC meetings.

### **1.5 Response of the Government/Departments towards Audit**

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

Review of IRs issued up to March 2019 revealed that 44,545 paragraphs relating to 12,044 IRs remained outstanding at the end of June 2019. The potentially recoverable revenue brought out in these IRs is as much as ₹ 11,533.96 crore, whereas the total revenue collection of the State is ₹ 1,50,222.57 crore. Department-wise details relating to the revenue sector of the State Government are given in **Table - 1.5**.

**Table - 1.5**  
**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.	5,857	25,718	3,953.42
		Entertainment tax	201	474	22.45
2	State Excise	State Excise	974	1,863	1,145.92
3	Transport	Taxes on vehicles	1,412	6,298	2,289.00
4	Stamps and Registration	Stamps and registration fees	3,365	9,042	2,470.53
5	Geology and Mining	Non-ferrous mining and metallurgical industries	235	1,150	1,652.64
<b>Total</b>			<b>12,044</b>	<b>44,545</b>	<b>11,533.96</b>

Even the first replies, required to be received from the heads of offices within four weeks of receipt of IRs, were not received in time. Out of total 243 IRs issued during the year 2018-19, Audit received first reply from the heads of offices in case of seven IRs within six months and in respect of 21 IRs beyond six months. The first replies had not been received in case of remaining 215 IRs issued during the year 2018-19. 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 this regard. 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 the 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 the Audit to bring about early settlement of the IRs.**



## 1.6 Results of audit

### Position of local audit conducted during the year

Audit covered six Departments<sup>16</sup> of the State Government and test-checked the records of 245 out of 1,556 auditable units (16 *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 2018-19. In these six Departments, revenue of ₹ 97,172.11 crore was collected during the year 2017-18, out of which the 245 audited units collected ₹ 28,550.28<sup>17</sup> crore. In 245 audited units, records were test-checked on the basis of turnover/tax payments which revealed underassessment/short levy/loss of revenue aggregating to ₹ 4,151.75 crore in 52,956 cases which were reported to the Departments through Inspection Reports. Out of this, the Departments concerned accepted (between April 2019 and August 2020) underassessment and other deficiencies of ₹ 99.05 lakh in 35 cases and reported recovery of ₹ 18.43 lakh in 17 cases. Further, in respect of audit observations reported prior to year 2018-19, the Department concerned accepted (between October 2019 and March 2020)<sup>18</sup> underassessment and other deficiencies of ₹ 67.99 crore in 185 cases and reported recovery of ₹ 6.85 crore in 116 cases.

#### Recommendation:

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

## 1.7 Coverage of this Report

This Report contains 23 paragraphs from local audits conducted during the year and those of earlier years which could not be included in the previous reports involving financial effect of ₹ 1881.32 crore.

The Departments have accepted audit observations involving ₹ 36.91 crore and recovered ₹ 1.93 crore. These are discussed in the succeeding Chapter II to VI.

The errors/omissions pointed out are on the basis of a test audit. **The Government/Department may, therefore, undertake a thorough review of all units to check whether similar errors/omissions have taken place elsewhere and if so, to rectify them and put in place a system that would prevent such errors/omissions.**

<sup>16</sup> Commercial Tax, State Excise, Transport, Stamps and Registration, Entertainment Tax and Geology and Mining.

<sup>17</sup> Commercial Tax Department could not provide unit-wise revenue collection to the Audit party after the implementation of GST and hence, this figure does not include revenue of audited units of the Department.

<sup>18</sup> Acceptance/Recovery reported by the Departments during the period April 2019 to September 2019 in respect of audit observations prior to the year 2018-19 have already been reported in the Audit Report for the year 2017-18.