

Overview

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This Report contains one Subject Specific Compliance Audit (SSCA) titled 'Department's Oversight on GST Payments and Return Filing', one Information Systems Audit of Integrated Financial Management System and 15 observations involving money value of ₹ 881.36 crore¹.

Chapter-I: General

The total receipts of the State Government for the year 2021-22 were ₹ 78,168.31 crore. The Government raised ₹ 42,110.63 crore comprising tax revenue of ₹ 37,326.86 crore and non-tax revenue of ₹ 4,783.77 crore. The State Government received ₹ 15,288.79 crore as State's share of divisible Union taxes and ₹ 20,768.89 crore as Grants-in-aid from the Government of India.

Five-year trend of revenue receipts shows that the share of State's own revenue decreased from 65.54 *per cent* of total receipts in 2017-18 to 53.87 *per cent* in 2021-22. While share of net proceeds of divisible Union taxes and duties slightly reduced from 20.03 *per cent* in 2017-18 to 19.56 *per cent* in 2021-22, Grants-in-Aid increased from 14.43 *per cent* (₹ 7,651.01 crore) in 2017-18 to 26.57 *per cent* (₹ 20,768.89 crore) in 2021-22. Overall, the State's own revenue has shrunk and dependency on Grants-in-Aid has increased in the last five years. However, during the year 2021-22, Grants-in-Aid reduced by 14.20 *per cent* in comparison to the preceding year. At the same time, the tax revenue increased by 24.20 *per cent* and non-tax revenue increased by 15.21 *per cent* in comparison to the preceding year, showing increase in the State's own receipts to total receipts.

(Paragraph 1.2, Page 1)

Test check of records of 108 units related to tax revenue comprising Sales Tax/Value Added Tax, State Excise, Taxes on Motor Vehicles, Stamp Duty and Land Revenue conducted during the year 2021-22 showed under assessment/short levy/loss of revenue aggregating ₹ 189.17 crore in 65,960 cases. The Departments recovered ₹ 9.84 crore in 1,473 cases during 2021-22, of the cases pointed out in audit upto the year 2021-22.

(Paragraph 1.4, Page 10)

In Tax-Revenue Departments, 108 Inspection Reports were issued to Heads of Departments for the year 2021-22. Out of those, Audit did not receive reply to 93 Inspection Reports within the stipulated time of four weeks. Further, the Inspection Reports issued for the years up to March 2022 showed that

¹ **Chapter-II: ₹ 872.20 crore (Limited Audit:** Recovered - ₹ 2.13 crore, SCN issued - ₹ 34.71 crore, ASMT-10 - ₹ 120.65 crore, Under correspondence with taxpayers - ₹ 5.71 crore, Audit rebuttals - ₹ 656.97 crore **Detailed Audit:** Recovered - ₹ 0.14 crore, Taken up for scrutiny - ₹ 24.85 crore, SCN issued - ₹ 1.15 crore, Under correspondence with taxpayers - ₹ 25.89 crore)
Chapter-IV: ₹ 9.16 crore

10,069 observations involving ₹ 4,050.79 crore relating to 2,311 Inspection Reports remained outstanding at the end of June 2022.

(Paragraph 1.5, Page 11)

In three audit committee meetings held with the Excise and Taxation Department, 14 observations involving money value of ₹ 33.90 crore were settled during the year 2021-22.

(Paragraph 1.5.1, Page 12)

Chapter-II: Department's Oversight on GST Payments and Return Filing

The Subject Specific Compliance Audit 'Department's Oversight on GST Payments and Return Filing' was conducted in three parts viz. 'Circle Audit', 'Centralised Audit' and 'Detailed Audit'.

'Circle Audit' brought out deficiencies in oversight of returns such as lack of action on late filers or non-filers of returns, slow pace of scrutiny of returns and delay in audit by tax authorities.

'Centralised Audit' brought out deviations/inconsistencies in 408 cases involving ₹ 66,817.97 crore, which was conducted by analysing datasets of taxpayers provided by GSTN. The Department's responses were received in 401 cases. Of these, 73 cases constituting 18.20 *per cent*, turned out to be clear compliance deficiencies with a revenue implication of ₹ 163.20 crore, which represent a mismatch of turnover of ₹ 61.88 crore in two cases and mismatch of tax liability/input tax credit of ₹ 101.32 crore in 71 cases. A relatively higher rate of deficiencies was noticed in short/non-payment of interest, input tax credit mismatch, availing of input tax credit under Reverse Charge Mechanism without discharging corresponding tax liability, incorrect turnover declarations and short payment of tax. While data entry errors caused the inconsistencies in 30.67 *per cent* of the cases, the Department had already taken proactive action in 7.98 *per cent* of the cases. The Department did not respond to seven cases of inconsistencies, which had an identified risk exposure of ₹ 79.06 crore including a mismatch of turnover of ₹ 71.48 crore in one case.

'Detailed Audit' brought out compliance deficiencies in 50 cases involving 128 instances with a revenue implication of ₹ 193.00 crore. Out of these, audit observations involving ₹ 52.03 crore in 43 instances were accepted by the Department including recoveries of ₹ 0.14 crore in nine instances. The main causative factors were availing of ineligible and irregular input tax credit, and incorrect discharge of tax under reverse charge mechanism as well as forward charge mechanism.

(Paragraph 2.1 to 2.8, Page 17)

Chapter-III: Information Systems Audit of Integrated Financial Management System

The Information Systems Audit of Integrated Financial Management System (IFMS) was conducted on the new IFMS (being developed by the NIC) for the period April 2020 to March 2022.

The audit brought out deficiencies in project planning. Exit Management Plan was not executed due to disagreement on pending payments between the State Government and M/s. Tata Consultancy Services (TCS) – the earlier System Integrator (SI). Further, there was no such Exit Management Plan available in respect of the new IFMS being developed by the National Informatics Centre (NIC) i.e. new System Integrator.

No formal Memorandum of Understanding (MoU) or agreement was entered into with NIC for implementation of new IFMS in the State of Punjab, even after lapse of more than two years of commencing the work by SI from November 2019 onwards. Though the timelines for the new IFMS (i.e. by March 2022) as per the project proposal could not be adhered and the system was still in the development phase, payment for the extended period (April 2022 onwards) was being made to NIC without any revised proposal or signing of MoU.

In spite of financial data being critical in nature, even after more than two years of implementation of the new IFMS solution with effect from April 2020, the requisite data could not be migrated fully from TCS-IFMS to NIC-IFMS and even the knowledge transfer was not shared by the previous SI due to some disputes on pending payments. Without proper data migration and backup strategies, critical information may be at risk of being permanently damaged or lost.

No Change Management Policy was available with the Department with regard to changes/modifications being made in the new IFMS solution. Absence thereof could result in poor communication with regard to the reasons for change, expected impact, and the benefits. Without a clear process for managing changes, there is a higher likelihood of project delays. Further, unplanned or uncontrolled changes can disrupt project timelines and deliverables.

In-house capacity building was not envisaged to identify and train responsible resource persons and the Department relied on NIC support for performing even petty activities. Without proper training, employees may struggle to use IT solutions efficiently. Besides, lack of capacity building can impede the transformation efforts, making it challenging for the organisation to adapt to new business models and processes.

Even after a lapse of more than 11 years of shifting various financial functions of the State Government from manual platform to eSolutions (IFMS) from

July 2011 onwards, the existing financial codes viz. Punjab Financial Rules, Punjab Treasury Rules and Punjab Budget Manual were not amended to ensure synergy of business processes in the system.

Though three main modules of IFMS viz. eBudget, eTreasury and eReceipt were implemented, three important sub-modules thereunder i.e. Debt Management, eReconciliation and eSanction were still to be developed/implemented.

During data analysis in IFMS, instances of generation of duplicate bill numbers, non-generation of token number during processing of bill, absence of flags to prioritise the processing/passing of bill, passing of bills flagged as rejected, mapping of head of accounts with types of bills, invalid Permanent Account Numbers, etc. were noticed. Generation of duplicate bill numbers and non-generation of token number could lead to the risk of double/fraudulent payments or unauthorised payments. Non-mapping of heads of account with type of bills may result in misreporting of expenditure for the respective object heads, besides making the reconciliation process difficult.

The integration of IFMS with other systems/applications being run in the State was inadequate, as is evident from various instances, such as generation of duplicate bill numbers in respect of POL bills prepared in Vehicle Management System (VMS), preparation of POL bills in IFMS instead of VMS in contravention of guidelines of the Finance Department, inadequate integration of IFMS with iHRMS, non-integration with Voucher Level Computerisation (VLC) of AG (A&E) Punjab office, unfreezing of previous months' accounts for making corrections therein after submission of the monthly accounts to AG office, etc. Besides, data inconsistencies with regard to mobile numbers were also found in the database. Requisite validation checks were lacking in the system to restrict such discrepancies.

Security audit of the implemented modules was conducted after more than two years of their hosting, which is a risk in view of the fact that the financial transactions of the State were being made through the system. Due to delayed/non-conducting of security audits, the Department may remain unaware of vulnerabilities in its systems and networks leading to potential security breaches, data leakages and unauthorised access.

In 3,389 out of 44,081 instances, IP_Location was not captured/stored by the System; and in 49 instances, IP_Location of the device was found to be outside India.

The Department was neither having any Disaster Recovery Policy nor was any Disaster Recovery site available in case of any exigency. Security incidents and disasters could lead to financial losses, potential legal actions, loss of business opportunities, etc.

(Paragraph 3.1 to 3.13, Page 63)

Chapter-IV: Compliance Audit Observations (Tax-Revenue Departments)

The Assessing Authorities in six ACsST raised additional demand of ₹ 5.18 crore in 29 assessment cases on account of non-submission of statutory declarations but did not levy interest of ₹ 2.08 crore.

(Paragraph 4.1, Page 102)

The Assistant Commissioners of State Tax, Mansa and Sangrur did not levy Punjab Infrastructure Development Fee of ₹ 1.09 crore on first stage purchase of cotton in three cases assessed between August 2019 and November 2020.

(Paragraph 4.2, Page 103)

The Assistant Commissioners of State Tax, Ludhiana-I and Mohali in two cases brought forward input tax credit of ₹ 0.60 crore in excess of what was determined in the assessment orders of the preceding year.

(Paragraph 4.3, Page 104)

The Assistant Commissioners of State Tax, Bathinda, Ludhiana-I, SAS Nagar and Jalandhar-II made omissions in assessment orders involving tax implication of ₹ 0.24 crore in four cases.

(Paragraph 4.4, Page 105)

The Assistant Commissioner of State Tax, Sangrur adjusted tax of ₹ 0.22 crore from final tax liability of two dealers without ensuring payment of advance tax made by the dealers.

(Paragraph 4.5, Page 107)

The Assistant Commissioner of State Tax, Ludhiana-III allowed benefit of concessional rate of tax of two *per cent* on inter-state sale on deficient 'C' forms in one case which resulted in short levy of tax of ₹ 0.15 crore.

(Paragraph 4.6, Page 108)

The Assistant Commissioner of State Tax, Ludhiana-I allowed input tax credit of ₹ 0.12 crore on goods which were not used towards taxable sale.

(Paragraph 4.7, Page 109)

The Assistant Commissioner of State Tax, Ludhiana-I allowed irregular concession of Central Sales Tax of ₹ 0.10 crore in one assessment case without ensuring that the 'C' forms submitted were genuine.

(Paragraph 4.8, Page 110)

The Joint Sub-Registrar, Zirakpur and Sub-Registrar, Derabassi did not levy stamp duty, registration fee and infrastructure development fee at applicable rates to conveyance, on power of attorney granting irrevocable and unequivocal rights to the developers for development, construction and sale of immovable property resulting in short levy of stamp duty, registration fee and infrastructure development fee of ₹ 1.74 crore.

(Paragraph 4.9, Page 111)

Five Sub-Registrars short-levied stamp duty, registration fee and infrastructure development fee of ₹ 1.20 crore in 36 cases due to misclassification of properties and incorrect application of Collector's rates.

(Paragraph 4.10, Page 112)

Sub-Registrar, Phagwara did not levy stamp duty and registration fee of ₹ 0.30 crore on mortgage against the loan of ₹ 28.00 crore secured by an industrial unit from a bank for the purpose of industrial production of poultry farm feed.

(Paragraph 4.11, Page 113)

Sub-Registrar, Phagwara short-levied stamp duty and registration fee of ₹ 0.27 crore (along with social infrastructure cess and infrastructure development fee) on an 'Agreement to Sell' with delivery of possession of the property.

(Paragraph 4.12, Page 114)

The State Transport Department did not collect motor vehicle tax and surcharge of ₹ 0.49 crore in respect of 18 tourist permit buses and 432 maxi/motor cabs. Further, Vahan 4.0 system had no provision of charging interest on delayed payments of motor vehicle tax in line with provisions of the Act.

(Paragraph 4.13, Page 115)

Eleven Regional Transport Authorities of Punjab short-recovered Motor Vehicle Tax and Social Security Surcharge of ₹ 0.37 crore from 1,076 goods vehicles.

(Paragraph 4.14, Page 116)

Eleven Regional Transport Authorities of Punjab did not recover permit application fee and permit fee of ₹ 0.19 crore from 542 transport vehicles.

(Paragraph 4.15, Page 117)