

Chapter 1: General

1.1 Trend of revenue receipts

1.1.1 The tax and non tax revenue raised by the Government of Punjab during the year 2005-06, the share of divisible Union taxes and grants in aid received from Government of India during the year and corresponding figures for the preceding four years are given below:

(In crore of rupees)

Sr. No.	Particulars	2001-02	2002-03	2003-04	2004-05	2005-06
I	Revenue raised by the State Government					
	• Tax revenue	4,820.23	5,711.00	6,145.94	6,944.63	8,989.38
	• Non tax revenue*	<u>2,960.45</u> (1,101.43)	<u>4,035.57</u> (1,477.58)	<u>4,665.53</u> (2,276.76)	<u>5,358.03</u> (2,739.06)	<u>4,536.33</u> (1,439.47)
	Total-I	7,780.68 (5,921.66)	9,746.57 (7,188.58)	10,811.47 (8,422.70)	12,302.66 (9,683.69)	13,525.71 (10,428.85)
II	Receipts from Government of India					
	• State's share of divisible Union taxes	610.49	649.02	754.39	902.35	1,227.45
	• Grants in aid					
	(i) Plan	378.43	369.25	438.78	416.33	509.90
	(ii) Non plan	159.02	306.35	134.32	186.14	1,703.42
	Total	537.45	675.60	573.10	602.47	2,213.32
	Total II	1,147.94	1,324.62	1,327.49	1,504.82	3,440.77
III	Total receipts of State Government (I+II)	8,928.62 (7,069.60)	11,071.19 (8,513.20)	12,138.96 (9,750.19)	13,807.48 (11,188.51)	16,966.48** (13,869.62)
IV	Percentage of I to III	87	88	89	89	80

Of the total receipts (Rs.16,966.48 crore) for the year 2005-06, 80 per cent was raised by the State Government and remaining 20 per cent came from the Union Government as State's share of divisible Union taxes and grants in aid.

The overall grants registered an increase of 267 per cent during the year 2005-06 over the year 2004-05. The plan grants witnessed an increase of 22 per cent while non plan grants increased by 815 per cent in the year 2005-06 over the year 2004-05. Reasons for increase under plan and non plan grants were called for in June 2006. Reply has not been received (August 2006).

1.1.2 The details of tax revenue raised during the year 2005-06 alongwith figures for the preceding four years are given below:

* The figures shown in brackets are net of expenditure on prize winning tickets of lotteries conducted by Government.

** For details please see statement number 11-Detailed accounts of revenue by minor heads in Finance Accounts of the Government of Punjab for the year 2005-06. Figures under the head "0021-Taxes on income other than corporation tax" share of net proceeds assigned to States booked in the Finance Accounts under A-Tax Revenue have been excluded from revenue raised by State and included in the State's share of divisible Union taxes in this statement.

(In crore of rupees)

Sr. No	Revenue head	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+)/or decrease (-) in 2005-06 over 2004-05.
1.	• Sales tax/VAT* • Central Sales tax	2,063.86 620.47	2,722.86 349.58	2,932.39 375.55	3,337.15 479.23	4,270.28 356.60	(+) 28 (-) 26
2.	State excise	1,350.06	1,428.91	1,462.79	1,486.62	1,568.16	(+) 5
3.	Stamp duty & registration fees	444.31	558.94	729.08	965.89	1,670.50	(+) 73
4.	Taxes and duties on electricity	2.80	187.64	234.91	251.65	669.41	(+)166
5.	Taxes on vehicles	318.44	443.87	388.79	403.93	431.19	(+) 7
6.	Other taxes and duties on commodities and services	11.71	10.43	9.19	6.43	6.95	(+) 8
7.	Land revenue	8.58	8.77	13.24	13.73	16.29	(+) 19
	Total	4,820.23	5,711.00	6,145.94	6,944.63	8,989.38	(+) 29

The tax revenue in the year 2005-06 showed an increase of 29 per cent over previous year. Sales tax receipts of Rs.4,626.88 crore amounted to 51 per cent of the tax revenue collected during the year 2005-06.

Reasons for variations in receipts during the year 2005-06 as compared to 2004-05 as intimated by concerned departments were as under:-

Taxes and duties on electricity :- Increase of 166 per cent was due to revision of rates of electricity duty from five to 10 per cent of sale of power and receipts of arrears of Rs.141.98 crore from Punjab State Electricity Board.

Reasons for variations in receipts during the year 2005-06 as compared to 2004-05 under the head 'sales tax', 'stamp duty and registration fees' and 'land revenue' were called for in May 2006. Reply has not been received (August 2006).

1.1.3 The details of the major non tax revenue raised during the year 2005-06 alongwith the figures for preceding four years are given below:

(In crore of rupees)

Revenue head	2001-02	2002-03	2003-04	2004-05	2005-06	Percentage of increase (+)/ decrease (-) in 2005-06 over 2004-05
Interest receipts	551.97	913.37	1,464.05	1,890.29	644.07	(-) 66
Dairy development	0.11	0.07	0.08	0.15	0.52	(+) 247
Other non tax receipts	244.36	314.98	542.95	344.69	459.44	(+) 33
Forestry and wild life	15.12	15.81	8.08	14.70	11.80	(-) 20

* For the year 2005-06

Non ferrous mining and metallurgical industries	3.70	7.46	10.87	11.40	10.79	(-) 5
Miscellaneous general services						
• State lotteries*	1,921.36 (62.34)	2,604.49 (46.50)	2,440.65 (51.88)	2,698.05 (79.08)	3,202.11 (105.25)	(+) 19
• Other than lotteries	106.28	26.55	30.80	106.20	42.26	(-) 60
Major and medium irrigation	16.33	24.47	12.44	90.96	26.17	(-) 71
Medical and public health	29.00	41.30	41.44	48.85	44.22	(-) 9
Co-operation	4.94	3.61	2.87	3.40	3.37	(-) 1
Public works	7.83	11.09	10.17	63.40	11.66	(-) 82
Police	30.72	27.22	62.28	52.43	33.62	(-) 36
Other administrative services	28.73	45.15	38.85	33.51	46.30	(+) 38
Total	2,960.45 (1,101.43)	4,035.57 (1,477.58)	4,665.53 (2,276.76)	5,358.03 (2,739.06)	4,536.33 (1,439.47)	(-) 15

There was decrease of 15 *per cent* in non tax revenue during the year 2005-06 over 2004-05. The major receipt which contributed to this was interest receipts (66 *per cent*) during the year 2005-06.

Reasons for variation in receipts during the year 2005-06 as compared to 2004-05 as intimated by concerned departments were as under:

Dairy Development:- Increase of 247 *per cent* was due to more registration of dealers under the Punjab Regulation of Compounded Cattle Feed Concentrates and Mineral Mixture Order, 1988 and also due to recovery of Rs. 29.75 lakh from Milkfed Punjab.

Public Works: The decrease of 82 *per cent* was due to non receipt of letter of credit (LOC) under various heads of accounts resulting in slow progress of departmental execution of works and less receipts of departmental charges.

Reasons for variations in receipts during 2005-06 in respect of other heads 'interest receipts', 'other non tax receipts', 'forestry and wild life', 'miscellaneous general services: 'state lotteries', 'other than lotteries', 'major and medium irrigation', 'police' and 'other administrative services' were called for in May 2006. No reply has been received (August 2006).

* Figures in brackets represent net receipts.

1.2 Initiatives for mobilisation of additional resources

1.2.1 Initiatives proposed in the budget

The Finance Minister during his budget speech for the year 2005-06 made certain commitments to introduce a number of corrective fiscal measures to generate employment opportunities in the state. Audit scrutiny disclosed that:-

- Agri-Diversification, Infrastructure Research and Development Fund(ADIRF), by levying Re. 1 and 50 paise per litre on diesel and petrol respectively had not been set up.
- Co-operative spinning mills and four co-operative sugar mills had not been brought under liquidation and disinvestment with the result that employment opportunities in the state could not be generated.
- “Golden Rozgar Bus Scheme” for the benefit of unemployed youth, exservice men, roadways employees and terrorist victims is yet to be introduced by the State Government.

1.3 Variations between budget estimates and actuals

The variations between budget estimates of revenue receipts for the year 2005-06 and the actual receipts in respect of the principal heads of revenue are given below:

(In crore of rupees)

Sr. No.	Revenue head	Budget estimates	Actuals	Variations excess (+) or short fall (-)	Percentage of variation
1.	Sales tax	4,300.00	4,626.88	(+)326.88	(+) 8
2.	State excise	1,525.00	1,568.16	(+) 43.16	(+) 3
3.	Stamp duty and registration fees	1,100.00	1,670.50	(+)570.50	(+) 52
4.	Taxes on vehicles	430.00	431.19	(+) 1.19	(+)0.27
5.	Interest receipt	692.59	644.07	(-) 48.52	(-) 7
6.	Taxes and duties on electricity	500.00	669.41	(+)169.41	(+) 34
7.	Road transport	355.50	170.82	(-)184.68	(-) 52
8.	Major and medium irrigation	80.00	26.17	(-) 53.83	(-) 67
9.	Police	56.56	33.62	(-) 22.94	(-) 41
10.	Public works	15.51	11.66	(-) 3.85	(-) 25
11.	Crop husbandry	9.79	5.94	(-) 3.85	(-) 39
12.	Forestry and wild life	17.50	11.80	(-) 5.70	(-) 33
13.	Land revenue	10.14	16.29	(+) 6.15	(+) 61
14.	Misc general services(including State lotteries)	3,280.10	3,244.37	(-) 35.73	(-) 1
15.	Other taxes and duties on commodities	10.87	6.95	(-) 3.92	(-) 36

Stamp duty and registration fee: The excess of 52 per cent was due to increase in market value of property and receipts being variable in nature depend upon number, kind of instruments and value.

Road transport: Shortfall of 52 per cent was due to delay in revision of bus fares and withdrawal of buses from existing fleet.

Crop husbandry: Shortfall of 39 per cent was due to renewal of licences in less number for sale of fertilizer, pesticides and weedicides.

Reasons for increase/decrease in actual receipts during 2005-06 over budget estimates in respect of other revenue heads were called for from the concerned departments in May 2006. No reply has been received (August 2006) .

1.4 Analysis of collection

Breakup of total collection at pre assessment stage and after regular assessment of sales tax, for the year 2005-06 and the corresponding figures for the preceding two years as furnished by the department is as follows:

(In crore of rupees)

Sr. No.	Year	Amount collected at pre assessment stage	Amount collected after regular assessment (additional demand)	Penalties for delay in payment of taxes and duties	Amount refunded	Net collection	Percentage of column 3 to 7
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	2003-04	2,924.00	104.42	41.17	5.53	3,064.06	95.43
2.	2004-05	3,729.85	59.91	9.71	5.82	3,793.65	98.32
3.	2005-06	4,603.05	46.83	5.68	37.15	4,618.41	99.66

The table above shows that percentage of collection of revenue at pre assessment stage ranged between 95.43 and 99.66 and the percentage of additional demand raised after regular assessments ranged between 0.34 and 4.79 per cent during the years 2003-04 to 2005-06.

1.5 Cost of collection

The gross collection in respect of major revenue receipts, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2003-04 to 2005-06 alongwith the relevant all India average percentage of expenditure on collection are given below:

(In crore of rupees)

Revenue head	Year	Collections	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of collection for the year 2004-05
Taxes on sales, trade etc.	2003-04	3,307.94	48.42	1.46	0.95
	2004-05	3,816.38	36.59	0.95	
	2005-06	4,626.88	49.06	1.06	

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Taxes on vehicles	2003-04	388.79	6.13	1.58	2.74
	2004-05	403.93	6.07	1.50	
	2005-06	431.19	6.52	1.51	
Stamp duty and registration fees	2003-04	729.07	14.04	1.93	3.44
	2004-05	965.89	14.26	1.48	
	2005-06	1,670.50	20.22	1.21	
State excise	2003-04	1,462.79	10.97	0.75	3.34
	2004-05	1,486.62	10.98	0.74	
	2005-06	1,568.16	11.90	0.76	

1.6 Collection of sales tax per assessee

The total number of assessees, gross collection of sales tax and revenue worked out per assessee for the years 2001-02 to 2005-06 are given below:

Year	No. of assessees	Sales tax revenue (In crore of rupees)	Revenue/assessee (lakh of rupees)
2001-02	3,02,866	2,684.33	0.89
2002-03	2,86,594	3,072.44	1.07
2003-04	2,98,239	3,307.94	1.11
2004-05	2,99,242	3,816.38	1.27
2005-06	2,92,242	4,626.88	1.58

1.7 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2006 in respect of some principal heads of revenue amounted to Rs.1,013.83 crore of which Rs.234.52 crore was outstanding for more than five years as detailed in the table:

(In crore of rupees)				
Sr. No.	Head of revenue	Amount outstanding as on 31 March 2006	Amount outstanding for more than 5 years as on 31 March 2006	Remarks
1.	Sales tax	760.91	145.65	Recoveries of arrears of Rs.130.35 crore were stayed by High Court/judicial/departmental authorities. Demands of Rs.6.10 crore were covered by recovery certificates, recovery of Rs. 2.49 crore was outstanding as dealers had become insolvent, demands of Rs. 15.19 crore were likely to be written off, demands of Rs. 1.46 crore were being recovered in instalments and balance amount of Rs. 429.45 crore was at different stages of action. Recovery of Rs.175.87 crore was held up due to rectification.
2.	State excise	12.97	11.71	Demands of Rs.2.05 crore were covered by recovery certificates, recovery of Rs. 49 lakh was stayed by High Court/other judicial and departmental authorities, recovery of Rs. 1 lakh was outstanding as dealers had become insolvent. Demands amounting to Rs.3.38 crore were likely to be written off, Rs.1.74 crore were being recovered in instalments, recovery of Rs. 7 lakh

				was held up due to rectification and balance of Rs.5.23 crore was at different stages of action.
3.	Taxes and duties on electricity	63.98	8.17	Recovery of Rs. 56 lakh was stayed by the High Court/other judicial and departmental authorities. No reasons for non recovery of balance amount of Rs.63.42 crore were intimated.
4	Taxes on vehicles*	59.97	37.34	Recovery of Rs 0.34 lakh was stayed by High Court/ judicial authorities. No reasons for non recovery of arrears of Rs.59.63 crore were intimated.
5.	<u>Interest receipts</u> • Pepsu Road Transport Corporation • Punjab State Tubewell Corporation	40.75 8.36	22.24 8.36	Non payment of interest liability was attributed to paucity of funds. Non payment of interest liability was attributed to having no source of income.
6.	Irrigation	50.40	Nil	Reasons for non recovery of arrears were not intimated.
7.	Forestry and wild life	16.40	1.01	Demand of Rs. 2 lakh was covered by recovery certificates. Recovery amounting to Rs. 24 lakh was likely to be written off, Rs.1.17 crore was being recovered in instalments and balance amount of Rs.14.97 crore was at different stages of action.
8.	Land revenue	0.06	0.02	Reasons for non recovery of the arrears were not intimated.
9.	Co-operation	0.03	0.02	Reasons for non recovery of arrears were not intimated.
	Total	1,013.83	234.52	

The arrears outstanding for more than five years constituted 23 per cent of total arrears.

1.8 Arrears in assessments

The details of cases pending assessment at the beginning of the year 2005-06, cases becoming due for assessment during the year, cases disposed of during the year and number of cases pending finalisation at the end of the year 2005-06 in respect of 21 districts as furnished by the department in respect of sales tax are as follows:

Name of tax	Opening balance	New cases due for assessment during 2005-06	Total	Cases disposed of during 2005-06	Balance at the end of the year	Percentage of Column 6 to 4
1	2	3	4	5	6	7
Sales tax	2,95,968	1,46,121	4,42,089	1,58,593	2,83,496	64

* This does not include information of Bathinda and Ludhiana districts.

It would be seen from above that 64 per cent of total cases were pending assessment as on 31 March 2006.

1.9 Evasion of tax

The details of cases of evasion of tax detected by the Excise and Taxation Department and Public Health Department, cases finalised and the demands raised as reported by the departments are given below:

Sr. No.	Name of tax/duty	Cases pending as on 31 March 2005	Cases detected during 2005-06	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised		No. of cases pending finalisation as on 31 March 2006
					No. of cases	Amount (in crore of rupees)	
1.	Sales tax*	6,018	5,624	11,642	5,445	3.96	6,197
2.	State excise	1	--	1	--	0.05	1
3.	Public health	4	--	4	--	--	4
4.	Taxes on vehicles	168	12	180	177	37.13	3

1.10 Write off and waiver of revenue

During the year 2005-06, demands for Rs.9.93 crore in 375 cases relating to sales tax and state excise were written off by the departments treating them as irrecoverable. Reasons for the write off of these demands as reported by the Excise and Taxation Department were as follows:

(In crore of rupees)

Sr. No	Reasons	Sales tax		State excise		Total	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Whereabouts of defaulters not known	151	4.05	25	0.15	176	4.20
2.	Defaulters no longer alive	35	1.38	21	0.62	56	2.00
3.	Defaulters not having any property	84	3.26	28	0.24	112	3.50
4.	Defaulters adjudged insolvent	4	0.02	-	-	4	0.02
5.	Records not being traceable	14	0.08	-	-	14	0.08
6.	Others	-	-	13	0.13	13	0.13
	Total	288	8.79	87	1.14	375	9.93

* This does not include the figures of Bathinda district.

1.11 Refunds

The number of refund cases pending at the beginning of the year, claims received, refunds allowed and cases pending at the close of the year 2005-06, as reported by the Excise and Taxation Department are given below:

(In crore of rupees)

Sr. No	Reasons	Sales tax		State excise		Total	
		Number	Amount	Number	Amount	Number	Amount
1.	Cases outstanding at the beginning of the year	401	3.75	66	0.13	467	3.89
2.	Cases received during the year	1,879	61.14	23	9.52	1,902	70.66
3.	• Refunds made during the year	1,322	37.16	16	9.18	1,338	46.34
	• Applications filed	10	1.04	-	-	10	1.04
4.	Balance outstanding at the end of the year	948	26.69	73	0.48	1,021	27.17

1.12 Results of audit

Test check of records of sales tax, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts and other non tax receipts during the year 2005-06 revealed under assessment/short levy/loss of revenue amounting to Rs. 241.11 crore in 3,118 cases. During the year, the departments accepted under assessment of Rs. 25.46 crore in 426 cases pointed out in 2005-06 and earlier years and recovered Rs. 8.08 crore. No replies have been received in respect of the remaining cases.

This report contains 30 paragraphs including three reviews relating to non/short levy of taxes, duties, interest and penalty etc. involving Rs. 245.62 crore. The department/Government accepted audit observations involving Rs. 2.17 crore of which Rs. 40 lakh had been recovered upto June 2006.

1.13 Failure of senior officials to enforce accountability and protect interest of Government

Principal Accountant General (Audit) Punjab arranges to conduct periodical inspection of various offices of Government departments to test check transactions of tax and non tax receipts and verify maintenance of important accounting and other records as per prescribed rules and procedures. These inspections are followed by inspection reports (IRs) issued to the heads of offices with a copy to the next higher authorities. The State Government prescribed that first replies to IRs should be sent to audit within a period of four weeks by the executive after ensuring action in compliance of the prescribed Acts, Rules and procedures and fixing accountability for the deficiencies, lapses, etc., noticed during inspection. Serious irregularities are also brought to

the notice of the heads of the departments. A half yearly report of pending IRs is also sent to the secretary of the department to facilitate monitoring of audit observations at Government level.

IRs issued upto 31 December 2005 pertaining to offices under excise and taxation, revenue, forests, power, transport and finance departments disclosed that 8,222 observations relating to 3,957 IRs involving Rs. 1,193.04 crore were outstanding at the end of June 2006. Of these, 3,700 IRs containing 7,547 observations involving Rs. 1,160.25 crore were pending settlement for more than one year. The year wise position of the outstanding IRs and observations is detailed in Appendix-I.

In respect of 147 observations relating to 82 IRs involving Rs. 13.53 crore issued upto December 2005, even the first replies, which were required to be received from the heads of offices within four weeks from the date of issue of IRs had not been received.

A review of IRs which were pending due to non receipt of replies, in respect of various departments, revealed that the heads of offices and the heads of the departments failed to send any reply to a large number of IRs/observations. The heads of department/administrative secretaries to Government, who were informed of the position through half yearly reports, also did not ensure timely action. Such inaction would result in continuation of serious financial irregularities and loss of revenue to Government despite these having been pointed out in audit.

It is recommended that Government may look into this matter to ensure that replies to IRs/observations are sent as per prescribed time schedule, recovery of loss/under assessment is effected in a time bound manner and system of response to audit observations in the department revamped.

1.14 Departmental audit committee meetings

For expeditious settlement of outstanding audit observations contained in the IRs, audit committees were constituted (March 1985) in all the departments.

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. During the year 2005-06, out of nine departments only two departments convened audit committee meetings in which only 64 paras were settled. This indicated that Government departments had not taken initiative to use the machinery created for expeditious settlement of outstanding audit observations.

1.15 Response of the departments to draft audit paragraphs

On the recommendation of the Public Accounts Committee (PAC), the Department of Finance issued directions to all departments in October 1967 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. The

draft paragraphs are forwarded by the audit office to the secretaries of the departments concerned through demi official letters 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 Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Paragraphs/reviews included in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2006 were forwarded to the secretaries of the respective departments between November 2005 and April 2006 through demi official letters. Replies to most of the paragraphs had not been received.

1.16 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, the Department of Finance issued instructions in August 1992 to initiate suo moto action on all paragraphs/reviews figuring in the audit reports irrespective of whether the cases were taken up for examination by the PAC or not. Out of paragraphs/reviews included in audit reports relating to the period 1999-2000 to 2004-05 which had already been laid before the State Legislature, action taken notes (ATNs) in respect of 46 paragraphs/reviews were not received as on June 2006 even after the lapse of prescribed period of three months. The outstanding ATNs date back to 1999-2000 as detailed below:

Year of report	Date of presentation of Audit Report to the legislature	No. of paragraphs/ reviews included in the Audit Reports	No. of paragraphs/ reviews on which ATN were due from the departments
1999-2000	21 June 2002	22	3
2000-01	21 June 2002	32	2
2001-02	29 March 2003	28	6
2002-03	25 June 2004	34	12
2003-04	31 March 2005	23	11
2004-05	13 March 2006	25	12
	Total	164	46

The audit reports for the year ended March 2001, March 2002, March 2003, March 2004 and March 2005 were laid on the table of the State Vidhan Sabha in June 2002, March 2003, June 2004, March 2005 and March 2006. Though the time limit of three months for furnishing the ATNs for the audit reports for the period from 1999-2000 to 2004-05 has since elapsed, the departments have not submitted/ furnished remedial ATNs on paragraphs.

1.17 Recovery of revenue of accepted cases

During the years between 2000-01 and 2004-05, the department/Government accepted audit observations involving Rs. 72.90 crore of which an amount of Rs. 5.80 crore was recovered till 31 March 2006 as detailed below:

Audit Report (Revenue Receipts) for year ended 31 March 2006

(In crore of rupees)

Sr.No.	Year of Audit Report	Total money value	Accepted money value	Recovery made
1.	2000-01	572.62	6.14	0.56
2.	2001-02	87.51	8.38	0.19
3.	2002-03	244.43	19.51	0.97
4.	2003-04	367.23	6.74	2.29
5.	2004-05	101.11	32.13	1.79
	Total	1,372.90	72.90	5.80