

CHAPTER I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of West Bengal, during the year 2009-10, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year 2009-10 and the corresponding figures for the preceding four years are mentioned below:

(Rupees in crore)

Sl. No.	Receipts	2005-06	2006-07	2007-08	2008-09	2009-10
1	Revenue raised by the State Government					
	• Tax revenue	10,388.38	11,694.77	13,126.33	14,419.15	16,899.98
	• Non-tax revenue	1,018.81	1,248.76	1,473.09	4,966.39	2,438.11
	Total	11,407.19	12,943.53	14,599.42	19,385.54	19,338.09
2.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes	6,668.33	8,505.60	10,729.06	11,321.78	11,648.16
	• Grants-in-aid	5,650.37	4,379.18	4,838.90	6,197.07	5,935.40
	Total	12,318.70	12,884.78	15,567.96	17,518.85	17,583.56
3.	Total receipts of the State Government (1 and 2)	23,725.89	25,828.31	30,167.38	36,904.39	36,921.65¹
4.	Percentage of 1 to 3	48	50	48	53	52

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 19,338.09 crore) was 52 *per cent* of the total revenue receipts against 53 *per cent* in the preceding year. The balance 48 *per cent* of receipts during 2009-10 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 for the year 2009-10. Figures under the heads 0020 - Corporation tax, 0021 - Taxes on income other than Corporation tax, 0032 - Taxes on Wealth, 0037 – Customs duty, 0038 - Union excise duties, 0044 - Service tax, - '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 2005-06 to 2009-10:

(Rupees in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	Tax on Sales, trade etc.	6,108.78	7,079.03	8,060.46	8,955.09	10,509.64	(+) 17.35
2.	State excise	743.46	817.36	935.46	1,082.94	1,443.81	(+) 33.32
3.	Stamp duty and registration fees						
	Stamps judicial	90.57	112.53	54.99	357.16	85.83	(-) 75.96
	Stamps non-judicial	648.36	746.70	490.23	527.15	722.20	(+) 37.00
	Registration fees	438.66	399.34	871.74	625.18	1,006.19	(+) 60.94
4.	Taxes and duties on electricity	382.46	526.35	506.69	587.52	664.57	(+) 13.11
5.	Taxes on vehicles	537.56	508.97	532.07	608.01	774.34	(+) 27.35
6.	Land revenue	917.11	952.69	1,039.58	983.78	928.92	(-) 5.57
7.	Other taxes on Income and Expenditure-Taxes on Profession, Trades, Callings and Employment	249.15	264.85	295.06	321.60	362.40	(+) 12.69
8.	Other taxes and duties on Commodities and Services	269.36	284.73	341.18	367.15	393.11	(+) 7.07
9.	Other taxes	2.91	2.22	(-) 1.13	3.57	8.97	(+) 150.98
	Total	10,388.38	11,694.77	13,126.33	14,419.15	16,899.98	(+) 17.20

The increase in tax revenue receipts in 2009-10 over the preceding year from State Excise (33.32 per cent), Stamp Duty and Registration Fees (20.18 per cent) and Taxes on vehicles (27.35 per cent) was mainly due to increased receipts of 'excise duty on account of increase in the number of retail outlets and shifting to the *ad valorem* duty structure for foreign liquor', 'upgradation of market value database and increase in transaction of real estates in urban and developing areas' and 'collection of tax and additional tax on motor vehicles and fees and fines under the Central Motor Vehicles Act' respectively.

The other departments did not inform (October 2010) the reasons for variation despite being requested (May 2010).

1.1.3 The following table presents the details of non-tax revenue raised during 2005-06 to 2009-10:

(Rupees in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	State lotteries	20.06	28.32	33.51	30.61	31.80	(+) 3.88
2.	Forestry and wildlife	38.61	40.87	49.84	45.33	64.17	(+) 41.56
3.	Interest receipts	378.08	683.66	689.96	3999.90	362.83	(-) 90.92
4.	Medical and public health	53.16	68.13	42.83	66.36	47.34	(-) 28.66
5.	Education, sports, art and culture	22.64	16.22	21.42	44.62	73.04	(+) 63.69
6.	Food storage and warehousing	191.50	87.67	247.71	340.17	1,292.97	(+) 280.10
7.	Police	57.05	71.33	63.02	66.88	68.67	(+) 2.68
8.	Dairy development	26.44	22.25	26.94	29.84	27.43	(-) 8.08
9.	Housing	9.67	10.43	9.68	9.07	14.52	(+) 60.09
10.	Others	221.60	239.88	288.18	333.61	455.34	(+) 36.49
	Total	1,018.81	1,268.76	1,473.09	4,966.39	2,438.11	(-) 50.90

The decrease in non-tax revenues in 2009-10 over the preceding year under 'Interest receipts' (90.92 *per cent*) and 'Medical and public health' (28.66 *per cent*) was mainly due to decrease in receipts of 'interest from public sector and other undertakings' and 'employees state insurance scheme and other receipts' respectively.

The other departments did not inform (October 2010) the reasons for variation despite being requested (May 2010).

1.2 Response of the department/Government towards audit

Audit observations raised during local inspection are replied by the concerned authorities after issue of inspection reports (IRs). The observations of serious irregularities are converted into draft paragraphs and forwarded to the concerned administrative departments/Government for their replies/comments within six weeks. In case of non-receipt of reply or if the reply furnished by the department/Government is not satisfactory, the draft paragraphs are included in the Audit Report. The Government after laying the Audit Report in the legislature forwards explanatory notes on the relevant paragraphs to the Committee on Public Accounts (PAC) for vetting by the Accountant General (AG). After discussion, the PAC makes recommendations for compliance by the Government within six months for final settlement of the paragraph.

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

The Accountant General (R,W & LBA) conducts periodic 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 IRs incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of the offices 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 two months from the date of issue of the IRs. We report serious financial irregularities to the heads of the departments and the Government.

We noticed that out of the IRs issued upto December 2009, disclosed that 3,012 paragraphs involving ₹ 4,253.42 crore relating to 1,109 IRs remained outstanding at the end of June 2010 as mentioned below alongwith the corresponding figures for the preceding two years.

	June 2008	June 2009	June 2010
Number of outstanding IRs	1,188	1,145	1,109
Number of outstanding audit observations	3,292	3,161	3,012
Amount involved (Rupees in crore)	4,181.67	4,179.03	4,253.42

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below:

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (Rupees in crore)
1.	Finance	Sales Tax/VAT	83	347	45.33
		Electricity duty	53	98	48.80
		Amusement Tax	68	131	27.39
		Profession Tax	77	192	8.59
2.	Excise	State excise	20	68	47.50
3.	Land and Land Reforms	Land Revenue	106	717	182.64
4.	Transport	Taxes on motor vehicles	100	267	9.44
5.	Finance	Stamp duty and registration fees	288	431	51.25
6.	Commerce and Industries	Non-ferrous mining and metallurgical industries	95	323	111.76
7.	Forest	Forestry and wildlife	99	194	49.11
8.	Public Works, Police and Irrigation and Waterways	Receipts from Public Works, Police and Water rate	120	244	3,671.61
Total			1,109	3,012	4,253.42

Even the first replies required to be received from the heads of offices within two months from the date of issue of the IRs were not received for 457 IRs issued upto December 2009. This large pendency of IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and 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 design an effective procedure to ensure prompt and appropriate response to audit observations as well as institute a system for taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and who 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 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 2009-10 and the paragraphs settled are mentioned below:

Name of the department	Number of meetings held	Number of paragraphs		Money value of paragraphs settled (Rupees in lakh)
		Discussed	Settled	
Power and non-conventional Energy sources	2	4	4	2.00
Commerce and Industries	1	42	-	-
Industrial Reconstruction	1	2	-	-
Total	4	48	4	2.00

Thus, out of eight departmental² audit committees, three committees held four meetings during 2009-10 and settled four paragraphs involving money value of ₹ 2 lakh. The other departments did not hold any audit committee meeting during 2009-10 despite being requested.

We recommend that the Government may consider holding audit committee meetings of each department at least twice a year.

1.2.3 Response of the departments to the draft audit paragraphs

We issued 42 draft paragraphs (DPs) including two³ reviews to six departments and proposed these for inclusion in the Audit Report 2009-10. Of these, only four⁴ departments furnished replies in respect of 11 draft

² Commerce and Industries Department, Excise Department, Finance (Revenue) Department comprising of Directorate of Commercial Taxes, Directorate of Registration and Stamp Revenue, Directorate of Electricity, Land and Land Reforms Department, Power and Non-conventional Energy Sources Department, Industrial Reconstruction Department, Public Works Department and Forest Department.

³ The review on "Collection of Motor Vehicles Taxes, Fees and Fines" will be issued as a stand alone report.

⁴ Finance, Excise, Land and Land Reforms and Forest.

paragraphs in spite of repeated reminders. The details of draft paragraphs issued and replies received during the last three years are mentioned below:

Name of the Department	Head of revenue	Year	Number of DPs issued	Reply received
Finance	Sales Tax/VAT	2007-08	19+1 (R) ⁵	5
		2008-09	20+1 (R)	12
		2009-10	22	1
	Stamp Duty and Registration Fees	2007-08	3	Nil
		2008-09	2+2 (R)	Nil
		2009-10	2	2
	Profession Tax	2007-08	1	Nil
		2008-09	1	Nil
		2009-10	2	Nil
Excise	State Excise	2007-08	6	5
		2008-09	9	7
		2009-10	5	2
Land and Land Reforms	Land Revenue including Mines and Minerals	2007-08	5	Nil
		2008-09	8	3
		2009-10	8	5
Transport	Taxes on Motor Vehicles	2007-08	4	Nil
		2008-09	5	Nil
		2009-10	1 (R)	Nil
Forest	Forest Receipts	2007-08	2	Nil
		2008-09	1	1
		2009-10	1 (R)	1
Irrigation and Waterways	Water rate	2007-08	1	Nil
		2008-09	1	Nil
		2009-10	1	Nil

The Government may consider issuing instructions to the concerned departments for furnishing reply to the draft paragraphs within the stipulated period of six weeks.

1.2.4 Follow-up on Audit Reports – summarised position

As per the Rules of Procedure of the Committee on Public Accounts of the West Bengal Legislative Assembly (Internal Working) framed in 1997, the concerned department shall send action taken notes (ATN) on the recommendations contained in the Report of the PAC within six months from the date of its presentation to the House. The position of outstanding ATNs due from the departments is mentioned in the following table:

⁵ Review.

PAC Report	Date of presentation in the Assembly	Name of the Department	Year of Audit Report	Number of ATNs due
17 th Report of 1988-89	5 May 1989	Irrigation and Waterways	1978-79	2
			1983-84	1
22 nd Report of 1990-91	26 March 1991	Transport	1979-80	1
			1980-81	1
7 th Report of 1991-93	23 March 1993	Finance	1983-84	1
17 th Report 1993-94	31 March 1994	Land and Land Reforms	1985-86	1
25 th Report of 1994-96	1 August 1995	Transport	1983-84	1
		Home (Police)	1988-89	1
		Land and Land Reforms	1980-81	1
17 th Report of 1998-99	28 June 1999	Land and Land Reforms	1988-89	1
			1992-93	1
16 th Report of 2002-03	8 July 2003	Finance	1998-99	1
22 nd Report of 2003-04	7 July 2004	Finance	1998-99	8
35 th Report of 2004-05	8 July 2005	Land and Land Reforms	1999-2000	5
2 nd Report of 2006-07	28 November 2006	Finance	2003-04	8
20 th Report of 2008-09	17 March 2009	Housing Department	2001-02	2
23 rd report of 2008-09	24 March 2009	Transport	2006-07	2
Total				38

Thus, the departments failed to submit ATNs within the stipulated period of six months in respect of 38 paragraphs included in the Audit Reports upto the year ended March 2007.

1.2.5 Compliance with the earlier Audit Reports

The Committee on Public Accounts discusses the Receipt Audit Reports and presents its own reports and recommendations for compliance by the Government. Normally 20 *per cent* of the total number of paragraphs of the Audit Report are selected every year for discussion. The remaining paragraphs are disposed of on the basis of replies of the Government.

As of 31 March 2010, the Government had not furnished explanatory notes in respect of 33 selected and 1,334 unselected paragraphs including 377 sub paragraphs of Audit Reports from 1981-82 to 2007-08. The lack of response from the Government would adversely impact the revenue realisation.

1.3 Analysis of the mechanism for dealing with the issues raised by audit

Excise Department

The succeeding paragraphs 1.3.1 and 1.3.2 discuss the action taken by the **Excise Department** to deal with the cases detected in the course of local audit conducted during the last 10 years and also the cases included in the Audit Reports for the years 2000-01 to 2009-10.

1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2010 are tabulated below:

(Rupees 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
2000-01	120	264	32.42	9	81	369.50	5	61	1.58	124	284	400.34
2001-02	124	284	400.34	12	82	51.69	13	76	11.50	123	290	440.53
2002-03	123	290	440.53	13	57	21.63	1	24	1.48	135	323	460.68
2003-04	135	323	460.68	12	61	5.46	23	91	54.37	124	293	411.77
2004-05	124	293	411.77	17	87	60.88	1	34	12.99	140	346	459.66
2005-06	140	346	459.66	6	65	49.18	2	45	6.07	144	366	502.77
2006-07	144	366	502.77	7	72	41.27	10	93	26.30	141	345	517.74
2007-08	141	345	517.74	10	122	22.57	3	75	98.57	148	392	441.74
2008-09	148	392	441.74	6	52	27.67	1	36	3.72	153	408	465.69
2009-10	153	408	465.69	10	82	59.06	132	370	463.44	31	120	61.31

The department settled lesser number of paragraphs as compared to additions during the last 10 years except in the years 2003-04, 2006-07 and 2009-10.

It would be seen from the above that the pace of clearance was very slow upto 2008-09 and during 2009-10 there was a steep rise in clearance. Since with the passage of time the chances of recovery of the receipts become remote, the department may settle the audit observations promptly.

The department did not hold any audit committee meeting during the year 2009-10 to settle outstanding IRs/paras despite being requested. The position of audit committee meetings held during the last five years is mentioned below:

Year	Number of meetings held	Number of paragraphs settled	Money value of the paragraphs settled (Rupees in lakh)
2005-06	2	45	2.17
2006-07	1	59	2.83
2007-08	1	33	39.37
2008-09	1	42	13.05
2009-10	Nil	Nil	Nil

1.3.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the department and the amount recovered are mentioned below:

(Rupees in crore)

Year of AR	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Position of recovery of accepted cases as on 31.03.2010
1999-00	6	3.02	5	1.64	0.53
2000-01	4	356.18	1	0.17	0.04
2001-02	2	0.21	2	0.21	0.03
2002-03	4	84.50	2	16.11	0.10
2003-04	3	8.32	3 ⁶	0.30	0.06
2004-05	4	11.57	3	11.18	0.11
2005-06	5	0.81	4	0.30	0.08
2006-07	14	37.69	7	27.02	0.08
2007-08	4	11.13	2	0.27	0.23
2008-09	6	20.66	3	0.73	0.32
Total	52	534.09	32	57.93	1.58

The department accepted 32 paragraphs involving ₹ 57.93 crore during the last 10 years but realised ₹ 1.58 crore (2.72 per cent) till 31 March 2010 which is very low. This shows that the recovery mechanism like issue of demand notices to the licensees and debit to the personal ledger account is not functioning properly.

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* includes 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 and audit coverage and its impact during the past five years etc.

During the year 2009-10, the audit universe consisted of 939 auditable units, of which 201 units were planned and audited during the year 2009-10 which is 21.40 per cent of the total auditable units. The details are shown in **Appendix-I** of the report.

⁶ Out of three, two paragraphs partly accepted.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

Test check of the records of 128⁷ units of commercial tax, State excise, forest and other departmental offices conducted during the year 2009-10 revealed underassessments/short levy/loss of revenue aggregating to ₹ 540.26 crore in 951 cases. During the course of the year, the departments concerned accepted underassessments and other deficiencies of ₹ 263.80 crore involved in 439 cases of which 386 cases involving ₹ 136.20 crore were pointed out in audit during 2009-10 and the rest in the earlier years. The departments recovered ₹ 1.92 crore in 77 cases during 2009-10.

1.5.2 This Report

This report contains 27 paragraphs including one performance review on “Management of Forest Receipts” relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 222.56 crore. The departments/Government have accepted audit observations involving ₹ 83.49 crore out of which ₹ 71.18 lakh has been recovered. The replies in the remaining cases have not been received (October 2010). The paragraphs are discussed in the succeeding chapters II to VI.

⁷ Excludes units of Motor Vehicles.