

# **CHAPTER I**

## **GENERAL**

## EXECUTIVE SUMMARY

**Overall increase in the Government receipts** In 2010-11, there was an increase of 22.53 *per cent* in tax revenue and 20.81 *per cent* in non-tax receipts over the previous year 2009-10. The increase in tax revenue was mainly due to increase in circle rates by 100 *per cent* and in the case of non-tax, it was mainly due to more realisation of interest on various loans given by State Government.

**Failure of the Senior Official to enforce accountability and protect interest of the Government** The Inspection Reports (IRs) issued upto December 2010 disclosed that 7867 audit observations involving ₹ 6619.49 crore relating to 360 Inspection Reports remained outstanding as on 30<sup>th</sup> June 2011. The large pendency of IR/Paragraphs is indicative of the fact that the Heads of the offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by audit in IRs.

**Results of audit conducted by us in 2010-11.** Test check of the records of 107 units of the Departments of Trade and Taxes, State Excise, Entertainment Tax, Transport, Revenue, Public Works etc. conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating to ₹ 2019.31 crore in 2471 cases. The Departments have accepted underassessments and other deficiencies of ₹ 58 crore in 279 cases during the year.

This Report contain 12 Paragraphs and three Performance Audit Reports involving financial effect of ₹ 1479.98 crore, out of which, the concerned Departments accepted underassessment and other deficiencies of ₹ 58 crore involved in 279 cases which were pointed out by us. Of these, the Departments recovered ₹ 5.69 lakh in 5 cases during the year 2010-11.

<b>CHAPTER I</b>
<b>GENERAL</b>

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of National Capital Territory (NCT) of Delhi during the year 2010-11, grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	<b>Revenue raised by the State Government</b>					
	Tax revenue	10,155.80	11,782.80	12,180.70	13,447.85	16477.75
	Non-tax revenue	1,463.58	1,816.70	2,300.72	3,467.40	4188.95
	<b>Total</b>	<b>11 619.38</b>	<b>13 599.50</b>	<b>14 481.42</b>	<b>16 915.25</b>	<b>20666.70</b>
2.	<b>Receipts from the Government of India</b>					
	<b>Grants-in-aid</b>	574.23	1,312.88	1,870.79	3,536.08	4357.40
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>12,193.61</b>	<b>14,912.38</b>	<b>16,352.21</b>	<b>20,451.33</b>	<b>25024.10</b>
4.	<b>Percentage of 1 to 3</b>	<b>95</b>	<b>91</b>	<b>89</b>	<b>83</b>	<b>83</b>

The above table indicates that during the year 2010-11, the revenue raised by the State Government was 83 *per cent* of the total revenue receipts (₹ 25024.10 crore). The increase in tax revenue was 22.53 *per cent* over the previous year and the increase in non-tax revenue was 20.81 *per cent* over the previous year. The balance 17 *per cent* of receipts were from the Government of India as Grants-in-aid.

**1.1.2** The following table presents the details of tax revenue raised during the period from 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) over previous year
1.	Taxes on sales, trade, etc.	7,365.79	8,310.49	9,152.09	10,126.01	12,068.62	(+) 19.18
2.	State Excise	1,133.19	1,301.25	1,420.91	1,643.56	2,027.09	(+) 23.34
3.	Stamp Duty and Registration fee	917.97	1,318.40	788.01	929.97	1,355.75	(+) 45.78
4.	Taxes on Vehicles	362.84	420.20	419.12	462.65	707.55	(+) 52.93
5.	Other taxes	376.01	432.46	400.57	285.66	318.74	(+) 11.58
	<b>Total</b>	<b>10,155.80</b>	<b>11,782.80</b>	<b>12,180.70</b>	<b>13,447.85</b>	<b>16,477.75</b>	<b>(+) 22.53</b>

The concerned Departments reported the following reasons for increase in receipts during 2010-11 over the previous year.

**Taxes on sales, trade etc.:** The increase was due to increased number of dealers getting registered with the Department, increased emphasis on scrutiny of returns, enhancing the rate of tax of some of the items from 4 to 5 *per cent*, and increased efforts by the border monitoring wing.

**State Excise:** The increase was due to introduction of new licence in the form of L-53, L-56 & L-9, opening of L-2 vends and natural growth.

**Stamp Duty and Registration fee:** The increase was due to increase in the registration fee rates w.e.f. 1.7.2010 and increase in circle rates by 100% w.e.f. 8.2.2011.

**Taxes on Vehicles:** The increase was due to increase in rate of Taxes during the year 2010-11.

**1.1.3** The following table presents the details of non-tax revenue raised during the period 2006-07 to 2010-11.

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) over previous year
1.	Forestry & Wildlife	0.04	0.05	0.08	0.07	0.10	(+) 42.86
2.	Interest Receipt	1284.98	1634.79	2101.41	3236.61	3869.84	(+) 19.56
3.	Mining Receipt	0.05	0.06	0.10	0.10	0.25	(+) 150.00-
4.	Public Works	9.71	11.95	9.23	14.99	15.64	(+) 4.34
5.	Medical & Public Health	15.18	16.87	18.75	24.65	36.28	(+) 47.18
6.	Education, Sports, Art & Culture	9.27	12.52	22.97	22.26	16.06	(-) 27.85
7.	Crop Husbandry	0.40	0.35	0.40	0.16	0.34	(+) 112.50
8.	Animal Husbandry	0.39	0.47	0.36	0.42	0.58	(+) 38.10
9.	Others*	143.56	139.64	147.42	168.14	249.86	(+) 48.60
<b>Total</b>		<b>1463.58</b>	<b>1816.70</b>	<b>2300.72</b>	<b>3467.40</b>	<b>4188.95</b>	<b>(+) 20.81</b>

*Note: Others comprise mainly receipts from Dividends & Profits, Public Service Commission, Other Administrative Services Power and Labour & Employment*

The reasons for increase in receipts during 2010-11 over the previous year 2009-10 as given by the concerned Departments are as under:

**Forestry and Wildlife:** The increase was mainly due to increase in compounding/composition charges of the offence cases.

**Interest Receipt:** The increase was mainly due to the increase in the amount of loan every year and inclusion of loan year by year by the Department of Urban Development.

**Public Works:** The increase was mainly due to sale of more number of tender documents.

**Medical & Public Health:** The increase was mainly due to revision of DGEHS contribution/subscription made by Delhi Government employee/ some autonomous bodies and increase in the amount charged by the Department for registration of Nursing Homes/Hospital and renewal of Hospital/Nursing Home registration charges which was deposited under the above receipt head.

**Crop Husbandry:** The increase was mainly due to collection of more user charges from beneficiaries, dealers, citizen etc. against the various facilities which were being provided, more sale of various inputs to the farmers, kitchen gardens and increase in sale of seedlings, saplings and decorative plants.

**Animal Husbandry:** The increase was stated to be due to increase in demand of meat; more exporters coming forward to get more meat samples tested.

## 1.2 Response of the Departments/Government towards Audit

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

The Principal Accountant General (Audit), Delhi, (Pr.AG) conducts periodical inspection of the Government Departments to test check the transactions and verify maintenance of the important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the inspection reports (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 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 Pr.AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government. Some of these are reported through Report of the Comptroller and Auditor General of India (AR) to the State Legislature every year. The Departments are requested to submit their replies to the Public Accounts Committee (PAC) which examine them in their meetings and give their reports to the State Legislature.

IRs issued up to December 2010 disclosed that 7867 paragraphs involving ₹ 6619.49 crore relating to 360 IRs remained outstanding at the end of 30 June 2011 as mentioned in the following table, along with the corresponding figures for the preceding two years.

	June, 2009	June, 2010	June,2011
Number of outstanding IRs	289	341	360
Number of outstanding audit observations	4481	6002	7867
Amount involved (₹ in crore)	3,093.36	3920.65	6619.49

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the money value involved are mentioned in the following table:

(₹ in crore)

Sl. No.	Name of Departments	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Finance	Taxes/VAT on sales, trade etc	329	7650	6589.30
2.	Excise	State excise	2	25	26.52
3.	Transport	Taxes on motor vehicles	15	49	0.05
4.	Stamps and registration	Stamps and registration fees	14	143	3.62
<b>Total</b>			<b>360</b>	<b>7867</b>	<b>6619.49</b>

The large pendency of IRs due to non-receipt of the replies is indicative of the fact that the Heads of offices and Heads of Departments had failed to initiate action to rectify the defects, omissions and irregularities pointed out by the Pr.AG in the IRs.

**It is recommended that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/outstanding demand in a time bound manner.**

### 1.2.2 Departmental Audit Committee Meetings

The Government set up Audit Committees (during various periods) 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 2010-11 and the paragraphs settled are mentioned in the following table:

(₹ in crore)

Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
Sales Tax	4	273	276.10
<b>Total</b>	<b>4</b>	<b>273</b>	<b>276.10</b>

The progress of settlement of paragraphs pertaining to Sales Tax was negligible as compared to the huge pendency of the IRs and paragraphs, despite holding Departmental audit committee meetings.

**It is recommended that the Government may fix more meetings for all outstanding paragraphs and make more concerted efforts to settle the outstanding observations**

### **1.2.3 Non-production of records to Audit for scrutiny**

The programme of local audit of Department of Trade & Taxes, Department of State Excise, Entertainment & Luxury Tax, Transport Department, Revenue Department and other receipts' offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, the records relating to three offices involving 2585 cases were not made available to Audit. Of the 2585 cases, 2559 cases related to Department of Trade and Taxes. Break-up of these cases are given in the following table:

Name of Office	Year in which it was to be audited	Number of assessment cases not audited	Number of cases in which revenue involved could be ascertained
Stamps & registration	2010-11	4	Nil
Transport	2010-11	22	Nil
Department of Trade & Taxes	2010-11	2559	Nil

The revenue involved in the above cases could not be ascertained, as the records were not made available to Audit for scrutiny.

### **1.2.4 Response of the Departments to the draft audit paragraphs**

Draft paragraphs proposed for inclusion in the Audit Report are forwarded by the Pr.AG to the concerned Departments through demi-official letters. All the Departments are required to furnish their remarks within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

Draft paragraphs clubbed into 15 paragraphs (including three reviews) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the respective Departments and the Government in July 2011. The replies from the Departments were received in parts in respect of all the paragraphs of the report.

### **1.2.5 Follow up on Audit Reports – summarised position**

Once the Reports of the Comptroller and Auditor General of India are placed in the State Legislative Assembly, the various Departments are required to submit

action taken notes (ATNs) on all paragraphs contained therein for consideration of the Public Accounts Committee (PAC). Undue delay in submission of ATNs dilutes the accountability of the Executive to the Legislature and is to be viewed seriously. The position of outstanding ATNs on paragraphs and reviews included in the Report relating to Revenue Receipts of the Comptroller and Auditor General of India, Government of NCT of Delhi as of October 2011 is mentioned in the following table:

Sl. No.	Year of Report ending 31 March	Number of paragraphs and reviews printed in Report	Number of paragraphs and reviews for which ATNs were awaited
1.	2004	20+3 (Reviews)	3+1 (Review)
2.	2005	26+1 (Review)	1
3.	2006	19+1 (Review)	1 (Review)
4.	2007	15+1 (Review)	1*(Review)
5.	2008	9+2 (Review)	2^ (Reviews)
6.	2009	13+2(Reviews)	13+2 (Reviews)
7.	2010	15+1 (Review)	15+1 (Review)

\*ATN received partially. ^ ATN in respect of one review received partially.

**The Government needs to review the pending Action Taken Notes and take expeditious action.**

#### 1.2.6 Compliance to earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2005-06 to 2009-10, the Department/Government accepted audit observations involving revenue of ₹ 894.31 crore of which only ₹ 14.69 crore was recovered till October 2011 as mentioned in the following table:

(₹ in crore)			
Year of the Audit Report	Money value of Audit Reports	Money value of accepted cases	Amount recovered
2005-06	177.85	18.44	0.06
2006-07	254.93	209.06	0.27
2007-08	945.52	28.17	0.18
2008-09	1729.62	109.00	0.14
2009-10	1764.20	529.64	14.04
<b>Total</b>	<b>4872.12</b>	<b>894.31</b>	<b>14.69</b>

As against accepted money value of ₹ 894.31 crore, only ₹ 14.69 crore (1.64 per cent) were recovered during the last five years.



The Government may advise the concerned Departments to take necessary steps for speedy recovery.

### 1.3 Analysis of the mechanism for dealing with the issues raised by Audit

In order to analyse the system of addressing the issues highlighted in the Inspection Reports/Audit Reports by the Departments/Government, the action taken on the paragraphs and reviews included in the Audit Reports of the last eight years in respect of Department of Trade & Taxes is evaluated and included in each Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Department of Trade & Taxes to deal with the cases detected in the course of local audit conducted during the last eight years and also the cases included in the Audit Reports for the years 2003-04 to 2010-11.

#### 1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued during the last *eight* years, paragraphs included in these reports and their status as on 31<sup>st</sup> March 2011 are tabulated in the following table:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance during the year		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2003-04	1046	9472	750.88	99	1453	564.88	-	104	188.34	1145	10821	1127.42
2004-05	1145	10821	1127.42	93	1436	306.27	668	7468	404.91	570	4789	1028.78
2005-06	570	4789	1028.78	81	1377	399.89	227	1916	174.95	424	4250	1253.72
2006-07	424	4250	1253.72	64	880	320.51	265	2548	543.25	223	2582	1030.98
2007-08	223	2582	1030.98	62	1329	1077.42	79	1266	349.89	206	2645	1758.51
2008-09	206	2645	1758.51	89	2265	1748.24	6	429	413.39	289	4481	3093.36
2009-10	289	4481	3093.36	108	2972	2900.71	11	301	218.47	386	7152	5775.60
2010-11	386	7152	5775.60	54	2009	1831.89	85	564	434.09	355	8597	7173.40

Audit Committee meetings are arranged between the Departments and this office and these Committees settled the old paragraphs on the spot. It is evident from the given table that due to vigorous efforts, against 1145 IRs with 10821 outstanding paragraphs at the end of 2003-04, the number of outstanding IRs declined to 355 with 8597 paragraphs at the end of 2010-11.

#### 1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports

##### 1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last six years, those accepted by the Department and the recoveries made are mentioned in the following table:

(₹ in crore)

Year of Report ending 31 March	Number of paragraphs included	Money value of the paragraphs	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2004	23	410.05	-	12.86	12.86
2005	27	402.36	55.65	0.18	13.04
2006	20	177.85	11.52	0.11	13.15
2007	16	254.93	16.54	0.08	13.23
2008	11	945.52	70.75	0.14	13.37
2009	12	1706.46	529.64	14.04	27.41

It is evident from the above data that the action taken by the Government on the paras was insufficient and they need to take action to recover the revenue involved atleast in the accepted cases.

### 1.3.2.2 Action taken on the recommendations accepted by the Departments/Government

The draft Performance Audits conducted by the Pr.AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. These reports are also discussed in an exit conference and the Department's/Government's views are included while finalising the reviews for the Audit Reports.

The following Performance Audits on the Department of Trade & Taxes, State Excise, Entertainment & Luxury Tax and Transport Department featured in the last six Audit Reports; however none of these Reports were taken up by the Public Accounts Committee (PAC).

Year of IR	Name of the Review	Number of recommendations	Status
2004-05	Performance appraisal of levy of Sales Tax in respect of Inter State Sales	Four	The Department did not implement the recommendations.
2005-06	Assessment, levy & Collection of Entertainment, betting & luxury tax	3	Reply not furnished by the Department.
2006-07	High Sea Sale	3	Subsequent audits revealed that Department has not implemented the recommendation.
2007-08	Performance appraisal of exemption of Central Sales Tax on account of branch transfer/consignment sale	4	Reply not furnished by the Department.
2007-08	Information Technology Audit of the Department of Transport	5	Subsequent audit revealed that Department has not implemented the recommendation.
2008-09	Assessment, levy and collection of tax on Works Contract	3	Reply not furnished by the Department.
2008-09	Transition from Delhi Sales Tax to the Delhi Value Added Tax	4	Reply not furnished by the Department.
2009-10	Levy and collection of Stamp Duty and Registration Fee	5	The Department did not furnish any reply.

#### 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 include 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, audit coverage and its impact during past five years etc.

During the year 2010-11, the audit universe comprised of 107 auditable units, and all the 107 units were audited during the year 2010-11 which is 100 *per cent* of the total auditable units.

Besides the compliance audit mentioned above, three Performance Audits namely **“Utilisation of Declaration Forms in Inter-state Trade and Commerce”**, **“Computerisation in Motor Vehicle Department”** and **“Interest Receipts”** were also taken up to examine the efficacy of the tax administration of these receipts.

#### 1.5 Results of Audit

##### 1.5.1 Position of local audits conducted during the year

Test check of the records of Department of Trade and Taxes, State Excise, Entertainment, Transport, Public Works etc., conducted during the year 2010-11 revealed underassessment/short levy/loss of revenue aggregating ₹ 2019.31 crore in 2471 cases. During the course of the year, the Departments concerned accepted underassessment and other deficiencies of ₹ 58 crore involved in 279 cases which have been pointed out by audit. Of these, the Departments recovered ₹ 5.69 lakh in 5 cases during the year 2010-11.

##### 1.5.2 This Report

This report contains 15 paragraphs including three Performance Audits on **“Utilisation of Declaration forms in Inter State Trade and Commerce”**, **“Computerisation in Motor Vehicles Department”** and **“Interest Receipts”** wherein we have pointed out several system's and compliance deficiencies besides short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 1479.98 crore of which ₹ 58 crore has been accepted by the Department. These are discussed in succeeding Chapters II to IV.