

CHAPTER-I: GENERAL

1.1 Trend of revenue

1.1.1 Tax and non-tax revenue raised by the Government of Odisha during the year 2011-12, State's share of net proceeds of divisible Union taxes and duties assigned to the State and grants-in-aid received from the Government of India (GoI) during the year and the corresponding figures for the preceding four years are mentioned in the table below:

		(₹ in crore)				
		2007-08	2008-09	2009-10	2010-11	2011-12
1.	Revenue raised by the State Government					
	• Tax revenue	6,856.09	7,995.20	8,982.34	11,192.67	13,442.74
	• Non-tax revenue	2,653.58	3,176.15	3,212.20	4,780.37	6,442.96
	Total	9,509.67	11,171.35	12,194.54	15,973.04	19,885.70
2.	Receipts from the Government of India					
	• State's share of net proceeds of divisible Union taxes and duties	7,846.50	8,279.96	8,518.65	10,496.86	12,229.12 ¹
	• Grants-in-aid	4,611.02	5,158.70	5,717.02	6,806.25	8,152.20
	Total	12,457.52	13,438.66	14,235.67	17,303.11	20,381.32
3.	Total revenue receipts of the State Government (1+2)	21,967.19	24,610.01	26,430.21	33,276.15	40,267.02
4.	Percentage of 1 to 3	43.29	45.39	46.14	48.00	49.38

During the year 2011-12, the revenue raised by the State Government (₹ 19,885.70 crore) was 49.38 *per cent* of the total revenue receipts against 48 *per cent* in the preceding year. The balance 50.62 *per cent* of receipts during 2011-12 was from the GoI.

¹ For details, please see Statement No. 11- Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Odisha for the year 2011-12. Figures under the minor head 901-Share of net proceeds assigned to the States under the major heads 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 booked in the Finance Accounts under A-Tax revenue have been excluded from the revenue raised by the State and exhibited as State's share of divisible Union taxes.

1.1.2 The following table presents the details of tax revenue raised during the period from 2007-08 to 2011-12:

(₹ in crore)							
Sl. No.	Heads of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+)/ decrease (-) in 2011-12 over 2010-11
1.	OVAT including Orissa Sales Tax (OST)	3,567.16	4,268.72	4,914.99	6,221.28	7,463.39	(+) 19.96
	Central Sales Tax (CST)	551.27	534.61	493.77	585.52	733.45	(+) 25.26
2.	Taxes and Duties on Electricity	327.46	365.03	459.96	458.06	551.65	(+) 20.43
3.	Land Revenue	276.16	348.79	292.18	390.66 ²	521.47	(+) 33.48
4.	Taxes on Vehicles	459.42	524.43	611.23	727.58	787.99	(+) 8.30
5.	Taxes on Goods and Passengers	626.90	638.32	815.25	1,111.37	1,312.36	(+) 18.08
6.	State Excise	524.93	660.07	849.05	1,094.26	1,379.00	(+) 26.02
7.	Stamp Duty and Registration Fee	404.76	495.66	359.96	415.82 ²	498.14	(+) 19.80
8.	Other Taxes and Duties on Commodities and Services	31.59	47.39	50.40	54.84	68.39	(+) 24.71
9.	Other Taxes on Income and Expenditure-Tax on Professions, Trades, Callings and Employments	86.44	112.18	135.55	133.28	126.90	(-) 4.79
Total		6,856.09	7,995.20	8,982.34	11,192.67	13,442.74	

The reasons for variations as reported by the concerned Departments are as follows:

Orissa VAT (OVAT) including OST/ CST: The increase (19.96 per cent) was due to increase in business activities of industry sector and vigorous collection drive by the Department.

Land Revenue: The increase (33.48 per cent) in collection of revenue was due to conversion of land under Section 8-A of the OLR Act, 1960, alienation of Government land to the different agencies and collection of premium thereof.

Stamp Duty and Registration Fees: The increase (19.80 per cent) was due to efforts taken by the I.G.R., Odisha as well as field functionaries and revision of Bench Mark Valuation, disposal of pending cases of under valuation by way of One Time Settlement Scheme (OTS).

State Excise Duty and Fees: The increase (26.02 per cent) was due to effective enforcement and opening of more legal outlets.

² The figure as furnished by the department is at variance with the Finance Accounts.

The other Departments did not furnish (January 2013) reasons for variation despite being requested (April 2012) and reminded (July 2012).

1.1.3 Non-tax revenue raised during the period 2007-08 to 2011-12 is detailed in the table below:

(₹ in crore)							
Sl. No.	Heads of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+)/ decrease (-) in 2011-12 over 2010-11
1	Non-ferrous mining and metallurgical industries	1,126.06	1,380.60	2,020.76	3,329.25	4,571.57	(+) 37.32
2	Interest receipts	570.39	654.67	379.23	260.84	576.38	(+) 120.97
3	Forestry and wild life	82.66	139.29	109.03	157.68	192.39	(+) 22.01
4	Irrigation & inland water transport	48.90	52.95	70.13	143.09	333.11	(+) 132.80
5	Other administrative services	17.31	9.38	56.48	11.06	16.07	(+) 45.30
6	Public works	31.61	38.31	41.99	48.79	47.16	(-) 3.34
7	Police receipts	29.17	22.25	36.69	38.45	36.18	(-) 5.90
8	Education	41.95	10.65	14.88	25.98	21.18	(-) 18.48
9	Medical and public health	14.28	32.18	12.96	19.55	37.12	(+) 89.87
10	Miscellaneous general services	396.95	388.85	11.60	412.29	86.86	(-) 78.93
11	Power	1.05	0.63	2.66	2.07	3.37	(+) 62.80
12	Co-operation	2.29	2.01	1.99	2.18	1.92	(-) 11.93
13	Other non-tax receipts	290.96	444.38	453.80	329.14	519.65	(+) 57.88
Total		2,653.58	3,176.15	3,212.20	4,780.37	6,442.96	

Source: Finance Accounts for the year 2011-12 of Government of Odisha

The reasons for variation as reported by the respective Departments are as follows:

Non-ferrous mining and metallurgical industries: The increase (37.32 per cent) was mainly due to enhancement in rate of royalty on iron ore, chromite etc. by the Indian Bureau of Mines (IBM).

Forestry and Wildlife: The increase (22.01 per cent) was due to more collection of KL royalty and arrear dues from the Orissa Forest Development Corporation (OFDC) Ltd.

The other Departments did not furnish (January 2013) the reasons for variation, despite being requested (April 2012) and reminded (July 2012).

1.2 Response of the Departments/Government towards audit

Audit observations on incorrect assessments, non/short-levy of taxes, duties, fees etc. not settled on the spot are communicated to the Heads of the Offices (HoOs)/Departments (HoDs) through Inspection Reports (IRs). The Departments are required to take corrective measures and furnish compliance within one month. On the basis of the compliance, paragraphs are settled by the Accountant General (E&RSA), Odisha (AG). The pending paragraphs are discussed in the Departmental Audit Committee (DAC) meetings to expedite settlement of the same. Important paragraphs of the IRs, Performance Audit (PA) Reports are included in the Report of the Comptroller and Auditor General of India (CAG) which is presented in the State Legislature and discussed in the Public Accounts Committee (PAC). Before such inclusion, paragraphs are forwarded to the Government seeking their views which is required to be furnished within six weeks. After the Report of CAG (Audit Report) is placed in the Legislature, the Departments are required to furnish compliance notes within three months. The PAC, on receipt of compliance notes, discusses the paragraphs and makes recommendations if required. Action Taken Notes (ATNs) on the recommendations of the PAC are required to be furnished by the Departments within six months. The issues raised in the Audit Report are finally settled after the PAC discusses the ATNs submitted by the Departments.

The response of the Departments/Government to audit at different stages of action are discussed in the succeeding paragraphs 1.2.1 to 1.2.6.

1.2.1 Inadequate corrective action on audit observations

The AG conducts periodical inspection of the Departments of the Government to test check the transactions and verify the maintenance of the important accounts and other records as prescribed in the Act, Rules and procedures thereunder. These inspections are followed up through IRs incorporating irregularities detected during the inspection and not settled on the spot. The IRs are issued to the HoOs inspected with copies to the next higher authorities for prompt corrective action. The HoOs/ HoDs/ 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 one month from the date of issue of the IRs. Serious financial irregularities are reported to the HoD and the Government.

We reviewed the position of the IRs issued up to December 2011 and noticed that 10,270 paragraphs involving ₹ 7,454.18 crore relating to 3,597 IRs were outstanding at the end of June 2012. The corresponding figures for the preceding two years as are also given below.

	June 2010	June 2011	June 2012
Number of outstanding IRs	3,251	3,267	3,597
Number of outstanding audit observations	9,285	9,712	10,270
Amount involved (₹ in crore)	4,685.50	6,258.05	7,454.18

Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 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 (₹ in crore)	Number of IRs against which first reply was not received
1.	Finance	OVAT including OST/CST	671	1,642	771.34	62
		Entry tax	222	389	120.96	
		Profession Tax	7	10	16.87	
2.	Excise	State excise	256	605	175.30	44
3.	Forest and Environment	Forest receipts	526	1,087	251.83	76
4.	Revenue & Disaster Management	Land revenue	774	1,744	1,327.05	143
		Stamp duty and registration fee	443	714	402.56	90
5.	Steel and Mines	Mining receipts	125	317	2,466.29	14
6.	Transport	Taxes on vehicles	335	3,173	617.40	21
		Taxes on goods and passengers	70	237	1.09	
7.	Energy	Electricity duty	114	268	1,272.75	33
8.	Co-operation	Departmental receipts	31	50	17.79	15
9.	Food Supplies & Consumer Welfare	-do-	17	21	3.19	1
10.	Works	-do-	3	6	0.49	2
11.	G.A.(Rent)	-do-	3	7	9.27	3
Total :			3,597	10,270	7,454.18	504

Source: As per data maintained in office of the AG

Even the first replies required to be received from the HoOs within one month from the date of issue of the IRs were not received for 504 IRs issued up to December 2011. This large pendency of the IRs due to non-receipt of the replies indicates that the HoOs/HoDs were yet to initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

Audit recommends that the Government may take suitable steps to put in place an effective procedure for prompt and appropriate response to audit observations and send the necessary replies to the IRs/paragraphs as per the prescribed time schedules so that appropriate action is taken to prevent loss of revenue and to recover the outstanding demands in a time bound manner.

1.2.2 Departmental Audit Committee meetings

The Government set up DACs (during various periods) to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs

In order to achieve the above objective, it is necessary that the DACs meet regularly and ensure that final action is taken in respect of all the audit observations outstanding for more than a year, leading to their settlement. During 2011-12, 30 meetings were held by the DAC of five Departments in which 74 IRs and 215 paragraphs involving ₹ 15.75 crore were settled. No DAC meeting was held during 2011-12 by the Excise Department.

Audit recommends that the Government may suitably instruct the concerned Departments to come up with more proposals for conduct of DAC meetings and to take rectificatory action on all audit observations, particularly those which are pending since long.

1.2.3 Non-production of records to Audit for scrutiny

Programme of local audit of offices is drawn up based on risk analysis covering revenue earning units and intimated sufficiently in advance to the Departments to enable them to keep the relevant records ready for audit scrutiny.

During 2011-12, 2,066 tax assessment records under OVAT including OST/CST/Entry Tax relating to 48 Commercial Tax Offices² were not made available to Audit. Of these, 717 assessments relate to 2011-12 and the remaining 1,349 cases relate to earlier years.

1.2.4 Response of the Departments to the Draft Audit Paragraphs

The Government of Odisha in Finance Department have instructed from time to time the Administrative Departments to submit compliance to Draft Audit Paragraphs (DPs) proposed by the AG for inclusion in the Audit Report, within six weeks from the date of receipt of such DPs. The DPs are forwarded by the AG to the Principal Secretary/Secretary of the Administrative Department concerned through demi-official letters seeking confirmation of the factual position and comments thereon within the stipulated period of six weeks.

We forwarded 87 DPs (clubbed into 62 paragraphs including one PA and one Thematic Study) proposed for inclusion in this Report, to the Secretaries/Principal Secretaries of the respective Departments between February and October 2012 through demi-official letters with a request for verification of the factual position and comments thereon. Demi-official reminders were also issued after the expiry of six weeks time in each case. The Secretaries/Principal Secretaries of the Departments did not send replies to 44 DPs

² **Ranges** : Angul, Balasore, Bhubaneswar, Bolangir, Cuttack I, Cuttack II, Jajpur, Koraput and Sundargarh.

Circles: Angul, Balasore, Barbil, Bargarh, Bhadrak, Bhanjanagar, Bolangir, Boudh, Bhubaneswar I, Bhubaneswar III, Bhubaneswar IV, Cuttack I (Central), Cuttack I(City), Cuttack I(East), Cuttack I(West), Cuttack II, Dhenkanal, Gajapati, Ganjam I, Ganjam II, Jagatsinghpur, Jharsuguda, Kalahandi, Kantabanji, Kendrapara, Keonjhar, Koraput, Malkangiri, Mayurbhanj, Nabarangpur, Nayagarh, Nuapara, Phulbani, Rayagada, Rourkela I, Rourkela II, Sambalpur I, Sambalpur II and Subarnapur.

(including one PA and one Thematic Study). Therefore, these paragraphs have been proposed for inclusion in the report without the response of the Departments concerned.

1.2.5 Follow up on Audit Reports

The Finance Department instructions also envisage that explanatory memoranda in respect of the paragraphs included in the Audit Reports should be furnished to the Orissa Legislative Assembly (OLA) within three months from the date of placing of the Report before the OLA.

A review of outstanding explanatory memoranda on paragraphs included in the Audit Reports (Revenue Receipts) as of June 2012 disclosed that against 874 paragraphs covered in the Audit Reports (Revenue Receipts) for the years 1991-92 to 2010-11, 293 paragraphs were discussed in the PAC leaving 581 paragraphs yet to be discussed. The Departments had also not submitted explanatory memoranda in respect of 94 paragraphs of the Audit Reports (Revenue Receipts) for the years 2005-06 to 2010-11.

With a view to ensuring accountability of the executive in respect of the issues dealt with in the Audit Reports, the PAC, has also directed that the Department concerned should furnish remedial ATNs on the recommendations of PAC relating to the paragraphs contained in the Audit Reports within the prescribed time frame. We noticed from the PAC Reports submitted during the 10th, 11th, 12th and 13th Assembly that 56 Reports containing 501 paragraphs/ recommendations were presented by the PAC before the Legislature between February 1991 and December 2008 after examination of the Audit Reports (Revenue Receipts) relating to 14 Departments for the years 1985-86 to 2005-06. However, ATNs have not been received in respect of 31 recommendations of the PAC from six Departments³ as of June 2012.

This indicates that the executive is yet to take adequate prompt action on the important issues highlighted in the Audit Reports/ PAC Reports that involve unrealised revenue.

³ Agriculture, Excise, Law, Revenue and Disaster Management, Steel and Mines and Water Resources Departments.

1.2.6 Compliance to the earlier Audit Reports – Position of recovery of accepted cases

In the Audit Reports for the years 2006-07 to 2010-11, audit observations relating to under assessments, non/short-levy of taxes, loss of revenue, failure to raise demands, etc. involving ₹ 2,917.50 crore were included. Of these, as of June 2012, the Departments concerned accepted under assessments and other deficiencies involving ₹ 1,729.79 crore and recovered ₹ 313.40 crore. Report wise details of amount accepted and revenue recovered are as under:

(₹ in crore)				
Sl. No.	Year	Money value of Audit Report	Amount accepted by the Department	Amount recovered
1.	2006-07	516.32	447.22	292.35
2.	2007-08	484.80	142.69	15.33
3.	2008-09	578.83	67.13	5.14
4.	2009-10	304.94	181.72	0.25
5.	2010-11	1,032.61	891.03	0.33
Total		2,917.50	1729.79	313.40

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

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Commercial Tax Wing** of the Finance Department in dealing with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2007-08 to 2011-12.

1.3.1 Position of Inspection Reports

The summarised position of IRs issued during the last five years, paragraphs included therein and their status as on March 2012 is tabulated below:

(₹ 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
2007-08	836	1,475	319.71	81	216	66.85	65	274	41.87	852	1,965	344.69
2008-09	852	1,965	344.69	69	219	299.16	80	263	20.97	841	1,921	622.88
2009-10	841	1,921	622.88	97	262	136.95	202	315	55.33	736	1,868	704.50
2010-11	736	1,868	704.50	168	378	168.51	89	367	33.23	815	1,879	839.78
2011-12	815	1,879	839.78	63	154	35.72	16	86	9.58	862	1,947	865.92

In order to expedite settlement of the pending IRs/paragraphs, 47 DAC meetings were held during the above period wherein 169 IRs and 1,124 paragraphs were settled.

Besides the above, during regular inspection of the offices the pending IRs/paragraphs are reviewed on the spot after obtaining compliance. Settlement of the IRs/paragraphs are also made on receipt of compliance from the Department and also on *suo motu* review of the pending cases.

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 for the last five years, those accepted by the CT wing of the Finance Department and the amount recovered is detailed in the table below:

(₹ in crore)						
Year of the Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2006-07	15+1 (R)	36.35	14	18.98	-	2.62
2007-08	15+1(R)	65.04	14	48.67	-	0.73
2008-09	19+1(R)	182.74	12	12.05	-	1.24
2009-10	09	59.26	08	14.35	1.64	1.64
2010-11	21+1(PA)	61.57	10	36.74	0.03	0.03
Total	79+4(R/PA)	404.96	58	130.79	1.67	6.26

The recoveries out of the accepted cases as reported to audit come to 4.79 per cent during the period from 2006-07 to 2010-11. **As arrear demands of OST/OVAT/CST dues are recoverable under the Schedule appended to the respective Act and the Orissa Public Demand Recovery (OPDR) Act, 1962, the Government may initiate cases for realisation of the balance amount of the accepted cases.**

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

The outcome of the Performance Audit (PA) conducted by the AG is forwarded to the concerned Departments/Government through Draft PA Reports for their information with a request to furnish their replies/comments. Such Report is also discussed in an Exit Conference and the views of the Department/Government are included while finalising the Audit Report.

The following paragraph discusses the Reviews/PA undertaken in the CT wing of Finance Department featured in the last four Audit Reports, the issues highlighted, the recommendations made and action taken by the Government/Department thereon including the recommendations accepted by them.

Year of the Audit Report	Name of the PA	Number of recommendations made	Action taken by the Department
2006-07	Value Added Tax Information System (VATIS) in Commercial Tax Department	5	Many of the recommendations have been carried out by the Department in rectifying the system of VATIS software. The system has been constantly upgraded from time to time.
2007-08	Concessions and exemptions on inter-State sales and branch transfer	4	The government's compliance note is silent on the recommendations.

Year of the Audit Report	Name of the PA	Number of recommendations made	Action taken by the Department
2008-09	Transition from sales tax to value added tax	4	Many of the suggestions for amendment of Rules have been addressed by amendment of OVAT Act/Rules from time to time. The VATIS software is being modified to accommodate the changes and recently the e-filing of returns has been introduced.
2010-11	Utilisation of declaration forms ('C' & 'F') in inter-State trade and commerce	4	The Department has operationalised the issue of e-Forms using TINXSYS and upgrading various modules of VATIS and computerised the border check gates so as to curb the loopholes in inter-State transactions.

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

During the year 2011-12, out of 798 auditable units, 316 units were planned and audited during the year 2011-12.

Besides Compliance Audit, one Thematic Study (TS) on "High Value Certificate- Pending Cases" and a PA on "Working of Excise Department" were also conducted to examine the efficacy of the tax administration of these receipts.

1.5 Results of Audit

1.5.1 Position of local audit conducted during the year

From the test check of the records of 316 offices involved in assessment/ collection of OVAT (including OST) / CST/OET/PT etc. Motor Vehicles Tax, Land Revenue, Stamp Duty and Registration Fee, State Excise Duty and Fees, Forest Receipts, Mining Receipts and Other Departmental Receipts as well as a PA and a TS conducted during the year 2011-12, we noticed underassessment/ short-levy/loss of revenue etc., aggregating to ₹ 5,005.13 crore in 2,16,945 cases. During the year, the Departments concerned accepted under assessments and other deficiencies of ₹ 1,409.90 crore involved in 37,885 cases, of which 30,733 cases involving ₹ 1,384.94 crore were pointed out by us during 2011-12 and the rest in the earlier years. The Departments collected ₹ 12.73 crore in 1,770 cases during 2011-12.

1.5.2 This Report

This Report contains 62 paragraphs including a PA on “Working of Excise Department” and a TS on “High Value Certificate- Pending Cases” relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 981.10 crore. The Departments/ Government have accepted audit observations involving ₹ 1,869.53⁴ crore out of which ₹ 0.67 crore has been recovered. Replies for the remaining cases have not been received (January 2013). These observations are discussed in the succeeding chapters II to VIII.

⁴ This includes ₹ 1,295.85 crore accepted by the Department against Paragraph 7.3.1.1 of this Report.