

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

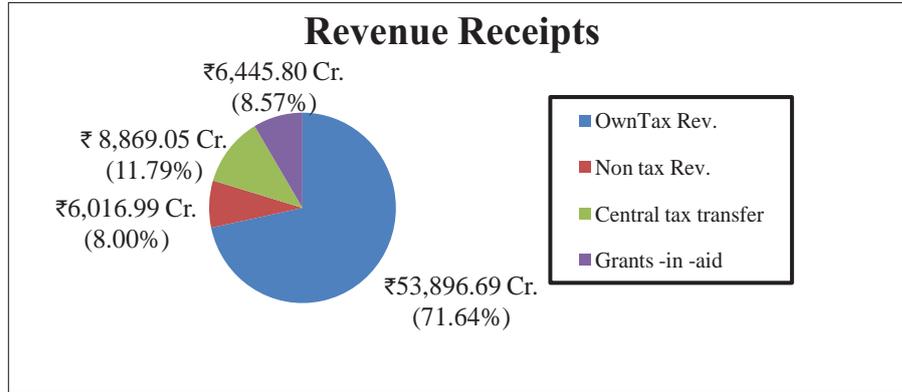
1.1.1 The tax and non-tax revenue raised by the Government of Gujarat during the year 2012-13, the State's share of net proceeds of divisible Union Taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are as mentioned below:

(₹ in crore)						
Sl. no.	Particular	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Revenue raised by the State Government					
	• Tax revenue	23,557.03	26,740.23	36,338.63	44,252.29	53,896.69
	• Non-tax revenue	5,099.32	5,451.71	4,915.02	5,276.52	6,016.99
	Total	28,656.35	32,191.94	41,253.65	49,528.81	59,913.68
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	5,725.86	5,890.92	6,679.44	7,780.31	8,869.05 ¹
	• Grants-in-aid	4,293.50	3,589.50	4,430.55	5,649.87	6,445.80
	Total	10,019.36	9,480.42	11,109.99	13,430.18	15,314.85
3.	Total revenue receipts of the State Government (1 and 2)	38,675.71	41,672.36	52,363.64	62,958.99	75,228.53²
4.	Percentage of 1 to 3	74	77	79	79	80

The above table indicates that during the year 2012-13, the revenue raised by the State Government (₹ 59,913.68 crore) was 80 *per cent* of the total revenue receipts against 79 *per cent* in the preceding year. The balance 20 *per cent* of the receipts during 2012-13 was from the Government of India.

¹ Figures under the 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, 0045 - Other taxes and duties on commodities and services", - share of net proceeds assigned to State 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.

² For details, please see statement No. 11- Detailed Statement of revenue and capital receipts by minor heads of the Finance Accounts of the Government of Gujarat for the year 2012-13.



1.1.2 The following table presents the details of tax revenue raised during the period from 2008-09 to 2012-13.

(₹ in crore)

Sl. no.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+) or decrease (-) in 2012-13 over 2011-12
1.	Sales tax/VAT	15,143.86	15,651.20	20,226.78	27,259.38	34,086.69	(+) 25.05
	Central sales tax	1,666.79	2,548.59	4,666.68	3,942.93	5,377.98	(+) 36.40
2.	Taxes and duties on electricity	2,369.91	2,643.65	3,262.64	3,654.56	4,406.60	(+) 20.58
3.	Stamp duty and registration fees	1,728.50	2,556.72	3,666.24	4,670.27	4,426.93	(-) 5.21
4.	Land revenue	543.50	1,161.20	1,788.78	1,477.18	2,207.85	(+) 49.46
5.	Taxes on vehicles	1,381.66	1,542.64	2,003.68	2,251.03	2,276.26	(+) 1.12
6.	Taxes on goods and passengers	169.35	6.91	6.38	208.34	210.58	(+) 1.08
7.	State excise	48.71	65.94	62.97	72.11	84.91	(+) 17.75
8.	Other taxes on income and expenditure	185.84	196.87	228.22	222.18	207.80	(-) 6.47
9.	Other taxes	318.91	366.51	426.26	494.31	611.09	(+) 23.62
	Total	23,557.03	26,740.23	36,338.63	44,252.29	53,896.69	(+) 21.79

The reason for decrease in receipts under 'stamp duty and registration fees' was due to decline of 14.78 per cent in the number of documents registered in 2012-13 vis-a-vis the documents registered in 2011-12.

The Commercial Tax Department stated economic development of the State and continuous efforts of the Department as the reasons for increase in receipts under 'Sales Tax/ VAT/ CST'.

The reasons for increase in receipts under ‘taxes and duties on electricity’ were due to increase in electricity charges and increase in sale of units of electricity. Further, payment of ₹ 180 crore by M/s Essar Steel Ltd. as per order of the Gujarat High Court and payment of outstanding amount of ₹ 13.92 crore by Vadodara Municipal Corporation in 2012-13 also led to increase in receipts.

The reasons for substantial variations relating to other receipts, though called for in May 2013, were not furnished (December 2013) by the concerned Departments.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2008-09 to 2012-13:

(₹ in crore)							
Sl. no.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+) or decrease (-) in 2012-13 over 2011-12
1.	Non-ferrous mining and metallurgical industries	1,559.82	2,138.98	2,019.31	1,819.64	1,847.16	(+) 1.51
2.	Interest receipts	567.81	419.44	403.88	631.89	1,325.84	(+) 109.82
3.	Major and medium irrigation	455.77	504.61	618.14	684.15	714.13	(+) 4.38
4.	Miscellaneous general services	643.29	847.14	62.29	69.65	-334.66 ³	(-) 580.49
5.	Other administrative services	189.44	110.80	41.11	70.27	102.22	(+) 45.47
6.	Police	77.44	101.45	149.08	138.97	163.84	(+) 17.90
7.	Medical and public health	126.50	62.40	118.11	90.76	126.34	(+) 39.20
8.	Public works	31.69	51.06	36.71	38.07	44.36	(+) 16.52
9.	Forestry and wild life	40.51	39.76	45.22	39.93	54.39	(+) 36.21
10.	Other non-tax receipts	1,407.05	1,176.07	1,421.17	1,693.19	1,973.37	(+) 16.55
Total		5,099.32	5,451.71	4,915.02	5,276.52	6,016.99	(+) 14.03

The concerned Departments did not furnish reasons for variations, despite being called for (December 2013).

³ Includes ₹ - 47186.68 lakh on account of recovery of debt waiver (write off) granted by Government of India to Government of Gujarat for 2009-10, which remained to be adjusted in the accounts for 2011-12.

1.2 Response of the Departments/Government towards audit

In the following paragraphs from 1.2.1 to 1.2.6, response of the Departments/Government towards various aspects related to the audit process has been discussed.

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

The Accountant General (Economic and Revenue Sector Audit) Gujarat, Ahmedabad (AG), conducts periodical 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 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 comply promptly on 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 receipt of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection Reports issued upto December 2012 disclosed that 13,275 paragraphs involving ₹ 5,736.81 crore relating to 3,653 IRs remained outstanding at the end of June 2013 as mentioned below alongwith the corresponding figures for the preceding two years.

Particulars	June 2011	June 2012	June 13 ⁴
Number of outstanding inspection reports	4,535	4,519	3,653
Number of outstanding audit observations	14,100	14,423	13,275
Amount of revenue involved (₹ in crore)	8,718.32	8,814.69	5,736.81

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2013 and the amount involved are mentioned in the following table:

⁴ During the year 2012-13, the numbers of outstanding Inspection Reports (IRs) and observations decreased as the audits pertaining to receipts such as electricity duty, taxes on vehicles and mining receipts were transferred to the Economic Sector audit wing under AG (Economic & Revenue Sector Audit) Gujarat, Ahmedabad and also the audit of receipts such as entertainment tax, luxury tax and state excise were transferred to AG (General & Social Sector Audit) Gujarat, Rajkot. The status of outstanding IRs of these transferred cases would appear in the Economic Sector and General & Social Sector Audit Reports separately.

Sl. no.	Name of the Department	Audit topic	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1	Finance (Commercial Tax)	Taxes/VAT on sales, trade etc.	1610	6906	3238.18
		Profession Tax	15	26	0.0419
2	Revenue	Land revenue	170	520	403.78
		Stamp duty and registration fees	1197	3999	1527.24
		Valuation of property	198	439	53.84
		Expenditure ⁵	463	1385	513.73
Total			3,653	13,275	5,736.81

Even the first replies required to be received from the heads of office within one month from the date of receipt of the IRs were not received (June 2013) for 62 IRs issued up to December 2012. This large pendency of the 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 take suitable steps to implement an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who failed to send replies to the IRs/paragraphs as per the prescribed time schedules and also failed to take action to recover 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 2012-13 and the paragraphs settled are mentioned below:

Sl. no.	Name of the Department/Head of revenue	Number of meetings held	Number of IRs/paragraphs settled		Amount Settled (₹ in crore)
			IRs	Paragraphs	
1.	Finance (Sales tax/VAT)	-	-	-	-
2.	Land Revenue	02	10	69	29.45
3.	Stamp duty	-	-	-	-

⁵ Includes IRs pertaining to Revenue Department issued by AG (General and Social Sector Audit) Gujarat, Rajkot up to March 2012.

It could be seen from the above paragraphs that though the money value involved in the amount of the outstanding observations was ₹ 5,736.81 crore, only two meetings were held during the year.

Considering the large pendency of the IRs and the audit paragraphs, the Departments need to hold more Audit Committee meetings to clear the outstanding paragraphs.

1.2.3 Response of the Departments to the draft audit paragraphs

According to the hand book of instructions, for speedy settlement of draft paragraphs issued by the Finance Department on 12 March 1992, results of verification of facts contained in the draft paragraphs are required to be communicated to the AG within six weeks from the date of their receipt. In exceptional cases, where it is not possible to furnish the final reply to the draft paragraph within the above time limit, an interim reply should be given to the AG.

Forty six draft paragraphs (clubbed into 38 paragraphs) including two Performance Audits were proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2013 (Revenue Sector) Government of Gujarat and were forwarded to the Secretaries of the respective Departments between May and September 2013 through demi-official letters. The Secretary of the Finance Department replied to 26 draft paragraphs. Out of 26 paragraphs, four draft paragraphs were replied partially. The paragraphs of the performance audit have been included in this report after incorporating the response of the Secretary of the Finance Department, wherever received.

1.2.4 Follow up on Audit Reports - summarised position

As per the instructions issued by the Finance Department on 12 March 1992, administrative Departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports (AR) within three months of presentation of the ARs to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

The AR for the year 2011-12 was placed in the State Legislature on 02 April 2013. An explanatory note in respect of paragraphs included in AR 2011-12 was not yet furnished by the Departments as mentioned below (December 2013).

Name of the Department	2011-12 (Paragraphs)	2011-12 (Sub paragraphs- Reviews)	Total
Finance (Sales tax/VAT)	33	--	33
Revenue (Stamp duty)	11	--	11
(Land revenue)	06	27	33

Ports and Transport (Motor vehicles tax)	08	--	08
Industries and Mines (Mining receipts)	09	--	09
Energy and Petrochemicals (Non tax receipts)	03	-	03
Total	70	27	97

Thus, out of 72 paragraphs and one Performance Audit report included in the Audit Report 2011-12, explanatory notes were received only in respect of two paragraphs and no explanatory note was received for the remaining 70 paragraphs and one Performance Audit report.

1.2.5 Compliance with the earlier Audit Reports

During the years between 2007-08 and 2011-12, the Departments/Government accepted audit observations involving ₹ 334.64 crore of which recovery of ₹ 43.07 crore had been made till 31 March 2013 as mentioned below:

(₹ in crore)			
Year of Audit Report	Total money value	Accepted money value	Recovery made*
2007-08	304.96	86.28	10.60
2008-09	5,743.47	47.02	4.52
2009-10	352.04	63.96	10.45
2010-11	462.98	89.50	13.26
2011-12	348.22	47.88	4.24
Total	7,211.67	334.64	43.07

* Amount recovered as shown above includes recovery effected by Finance, Ports and Transport, Revenue, Information and Broadcasting, Industries and Mines, and Energy and Petrochemicals Departments.

The recovery in respect of the accepted cases was meagre (13 per cent of the accepted money value).

We recommend the Government to advise the concerned Departments to take necessary steps to recover at least the amount of the accepted cases/ paragraphs in the interest of revenue.

1.3 Analysis of the mechanism for dealing with the issues raised by Audit in "Revenue Department"

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 Inspection Reports/Audit Reports of the last five years in respect of Revenue Department (Land Revenue) is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Revenue Department to deal with the cases detected in the course of local audit conducted during the last five years (2008-09 to 2012-13) 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 inspection reports issued during the last five years, paragraphs included in these reports and their status as on 31 March 2013 are tabulated below:

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance at the end of the year		
	IRs	Para-graphs ⁶	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2008-09	122	264	79.99	29	106	33.37	3	4	0.00	148	366	113.35
2009-10	148	366	113.35	18	124	218.46	7	9	0.13	159	481	331.67
2010-11	159	481	331.67	33	138	51.71	15	41	3.66	177	578	379.72
2011-12	177	578	379.72	23	87	40.16	22	92	25.94	178	573	393.95
2012-13	178	573	393.95	28	123	34.85	20	110	9.32	186	586	419.49

The above figures were confirmed by the Department (October 2013). Thus, there was continuous increase in the number (except in 2011-12) and money value of the objections as at the end of the year from 2008-09 to 2012-13. This indicates failure of the Department to take timely action on the audit objections. During five years period from 2008-09 to 2012-13, Revenue Department conducted seven Audit Committee Meetings in which 273 paragraphs and 87 IRs involving money value of ₹ 62.48 crore were settled.

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

1.3.2.1 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are mentioned in the following table:

(₹ in crore)

Year of AR	Number of paragraphs included	Money value of the paragraphs	Money value of accepted paragraphs	Amount recovered during the year 2012-13	Cumulative position of recovery of accepted cases
2007-08	4	6.91	0.24	0.00	0.08
2008-09	5	25.85	0.22	0.00	0.14
2009-10	2	49.19	0.10	0.88	0.90
2010-11	4	1.51	0.07	0.00	0.07
2011-12	7	151.70	6.85	0.33	1.25
Total	22	235.16	7.48	1.21	2.44

⁶ Those observations which were not included in Audit Reports.

Out of observations accepted of ₹ 7.48 crore, the Department recovered an amount of ₹ 2.44 crore during the period of five years which was 32.62 *per cent* of the accepted amount of observations.

We recommend the Department to consider taking effective steps to recover at least the amount of the accepted paragraphs in accordance with the provisions of Land Revenue Code/Rules and other relevant Acts/Rules.

1.3.2.2 Action taken on the recommendations

The draft report on the Performance Audit is also discussed in an exit conference and the Department/Government's views are included while finalising the Audit Report. During 2009-10 and 2011-12, we had proposed 12 recommendations⁷ for improving the efficiency, efficacy and internal controls of the Revenue Department. We are yet to receive response to the recommendations (December 2013).

1.4 Audit Planning

The offices under various Departments are categorised into high, medium and low risk according to their revenue realisation, 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, audit coverage and its impact during past five years etc.

During the year 2012-13, the audit universe comprised 1050 auditable entities, of which audit of 228 entities were planned and 227 entities were audited during the year, which is 21.62 *per cent* of the total auditable entities.

Besides the compliance audit mentioned above, two performance audits 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 audit conducted during the year

Test check of the records of 227 units of Revenue Department and Commercial Tax Department conducted during the year 2012-13 revealed under assessment/ short levy/loss of revenue amounting to ₹ 459.68 crore in 1279 cases. During the course of the year, the concerned Departments accepted under assessments and other irregularities of ₹ 63.48 crore in 264 cases of which 136 cases involving ₹ 51.61 crore were pointed out in audit

⁷ Performance Audit on Receipts from Conversion of Land – 8 recommendations and Performance Audit on Management of Government Land – 4 recommendations.

during the year 2012-13 and the rest in the earlier years. The Department recovered ₹ 11.22 crore in 140 cases at the instance of audit.

1.5.2 This Report

This report contains 38 paragraphs, including two performance audits on “Claim and admittance of Input Tax Credit” and “Revenue recovery action under Land Revenue Code for accumulated arrears of sales tax/value added tax”, relating to irregular/excess allowance of ITC, non-issuance of recovery notices under Gujarat Land Revenue Code, non-disposal of properties attached, short/non-levy of VAT/CST/occupancy/premium price/NAA/conversion tax/stamp duty/registration fees and other irregularities involving financial effect of ₹ 303.85 crore. The Departments/Government has accepted audit observations involving ₹ 58.95 crore out of which ₹ 0.83 crore has been recovered. The replies in the remaining cases have not been received (December 2013). These are discussed in succeeding Chapters II to IV.