

## CHAPTER-I GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Himachal Pradesh during the year 2009-10, 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 mentioned below:

(Rupees in crore)

Sr. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	1,497.02	1,656.38	1,958.18	2,242.49	2,574.52
	• Non-tax revenue	689.67	1,336.85	1,822.43	1,756.24	1,783.66
	<b>Total</b>	<b>2,186.69</b>	<b>2,993.23</b>	<b>3,780.61</b>	<b>3,998.73</b>	<b>4,358.18</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	493.26	629.16	793.64	837.49	861.63
	• Grants-in-aid	3,878.67	4,212.83	4,567.29	4,471.77	5,126.55
	<b>Total</b>	<b>4,371.93</b>	<b>4,841.99</b>	<b>5,360.93</b>	<b>5,309.26</b>	<b>5,988.18</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>6,558.62</b>	<b>7,835.22</b>	<b>9,141.54</b>	<b>9,307.99</b>	<b>10,346.36<sup>1</sup></b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>33</b>	<b>38</b>	<b>41</b>	<b>43</b>	<b>42</b>

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 4,358.18 crore) was 42 *per cent* of the total revenue receipts against 43 *per cent* in the preceding year. The balance 58 *per cent* of the receipts during 2009-10 was from the Government of India.

<sup>1</sup> For details, please see Statement No. 11-Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Himachal Pradesh for the year 2009-2010. Figures under the head 0020 - Corporation tax; 0021 - Taxes on income other than corporation tax; 0032 - Taxes on wealth; 0037 - Customs; 0038 - Union excise duties; 0044 - Service tax and 0045 - Other taxes and duties on commodities and services - 901 Share of net proceeds assigned to the States booked in the Finance Accounts under A-tax revenue have been excluded from the revenue raised by the State Government and included in the State's share of divisible Union taxes.

**1.1.2** The following table presents the details of the tax revenue raised during the period 2005-06 to 2009-10:

**(Rupees in crore)**

Sr. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) or decrease (-) in 2009-10 over 2008-09
1.	Taxes on sales, trade etc.	726.98	914.45	1,092.16	1,246.31	1,487.40	(+) 19
2.	State excise	328.97	341.86	389.57	431.83	500.26	(+) 16
3.	Stamps and registration fees						
	Stamps - judicial	3.44	3.18	4.10	4.69	5.95	(+) 27
	Stamps -non-judicial	64.06	68.86	64.12	73.53	84.10	(+) 14
	Registration fees	14.93	20.43	18.77	20.11	23.34	(+) 16
4.	Taxes and duties on electricity	89.29	30.43	81.57	78.83	39.08	(-) 50
5.	Taxes on vehicles	101.51	106.35	113.72	135.53	133.97	(-) 1
6.	Taxes on goods and passengers	42.61	50.22	55.12	62.39	88.74	(+) 42
7.	Land revenue	1.09	1.91	1.89	20.28	14.54	(-) 28
8.	Others <sup>2</sup>	124.10	118.65	137.13	168.99	197.14	(+)17
	<b>Total</b>	<b>1,496.98</b>	<b>1,656.34</b>	<b>1,958.15</b>	<b>2,242.49</b>	<b>2,574.52</b>	<b>(+) 15</b>

The following reasons for variations were reported by the concerned departments:

**State excise:** The increase was stated to be due to increase in application fee, annual license fee on country liquor/India made foreign liquor, area wise annual bar license fee and increase in number of liquor vends.

**Taxes and duties on electricity:** The decrease was stated to be mainly due to non-deposit of electricity duty in time during the year by the Himachal Pradesh State Electricity Board.

**Taxes on goods and passengers:** The increase was stated to be due to more receipt on account of transportation of iron, steel and plastic goods, increase in number of vehicles and increase in the rate of goods tax on all type of yam.

**Other taxes and duties on commodities and services:** The increase was stated to be due to increase in the rate of tax on iron & steel, lime stone, plastic goods under the Himachal Pradesh Taxation (on certain goods carried by road) Act, toll income by auction and more transportation of goods.

The other departments despite being requested (July 2010) did not intimate the reasons for variation in receipts from that of the previous year.

<sup>2</sup> The figures relating to years 2005-06: ₹ (-) 4 lakh, 2006-07: ₹ (-) 4 lakh and 2007-08: ₹ (-) 3 lakh on account of share of net proceeds assigned to the state.

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

**(Rupees in crore)**

Sr. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) or decrease (-) in 2009-10 over 2008-09
1.	Power	251.47	910.08	1,414.52	1,255.43	1,214.80	(-) 3
2.	Non ferrous, mining and metallurgical industries	42.90	48.39	56.59	76.57	85.09	(+) 11
3.	Interest receipts	49.29	87.18	66.90	77.97	76.93	(-) 1
4.	Forestry and wild life	149.63	45.55	53.60	55.40	72.11	(+) 30
5.	Public works	12.07	16.50	20.38	22.59	30.81	(+) 36
6.	Other administrative services	14.36	11.13	12.64	14.07	17.28	(+) 23
7.	Police	8.98	8.45	12.31	15.05	11.57	(-) 23
8.	Medical and public health	5.31	5.38	7.68	8.19	5.81	(-) 29
9.	Co-operation	1.68	7.28	4.93	2.80	3.35	(+) 20
10.	Miscellaneous general services (including lottery receipts)	2.13	73.86	47.51	5.25	1.05	(-) 80
11.	Major and medium irrigation	0.44	0.21	0.22	0.17	0.14	(-) 18
12.	Other Non-tax receipts <sup>3</sup>	151.41	122.84	125.15	222.75	264.72	(+) 19
	<b>Total</b>	<b>689.67</b>	<b>1,336.85</b>	<b>1,822.43</b>	<b>1,756.24</b>	<b>1,783.66</b>	<b>(+) 2</b>

The following reasons for variations were reported by the concerned departments:

**Forestry and Wild Life:** The increase was stated to be due to receipt from increased sale of various forest produce, compensation from other departments on account of plantation and increase in other miscellaneous forest receipts.

**Non-ferrous, mining and metallurgical industries:** The increase was stated to be due to more receipt of royalty/mineral concession fee, more use/exploration of major and minor mineral in the different development activities in the state. More receipt from Public Works Department and Hydro Electric Projects and Cement Plants established in the state.

**Co-operation:** The increase was stated to be due to more reimbursement of

<sup>3</sup> Comprises mainly receipts from the Himachal Pradesh Public Service Commission, Printing and Stationery, Water Supply and Sanitation, Family Welfare and Housing departments.

share from the National Co-operative Development Corporation, New Delhi for the execution of Integrated Co-operative Development Projects (ICDP) in Kinnaur and Lahaul and Spiti districts of the State.

**Police:** The decrease was stated to be due to less receipt of long term outstanding dues from Bhakra and Beas Management Board and other organisations on account of police forces deployed with them and less collection of fee and penalty etc.

**Public Works:** The increase was stated to be due to receipt from more construction work of residential and non-residential building and more recovery of departmental charges on deposit works.

The other departments despite being requested (July 2010) did not intimate the reasons for variation in receipts from that of the previous year.

## 1.2 Response of the Department/Government towards audit

### 1.2.1 Failure of the senior officials to enforce accountability and protect the interests of the Government

The Principal Accountant General (Audit), Himachal Pradesh (PAG) conducts periodical inspection of the Government departments to test check the transactions and verify the maintenance of 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 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 PAG with in one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the department and the Government.

Inspection reports issued upto December 2009 disclosed that 8,056 paragraphs involving ₹ 494.43 crore relating to 3,432 IRs remained outstanding at the end of the June 2010 as mentioned below alongwith the corresponding figures for the preceding two years.

	June 2008	June 2009	June 2010
Number of IRs pending for settlement	3,377	3,375	3,432
Number of outstanding audit observations	8,085	7,975	8,056
Amount of revenue involved (Rupees in crore)	403.75	470.48	494.43

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	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on Sales, Trade etc.	278	875	71.06
		PGT	222	562	9.52
		OTD	151	196	13.54
		Entertainment tax, luxury tax etc.	128	280	1.01
2.	Excise	State excise	75	252	33.30
3.	Revenue	Land revenue	250	451	0.86
4.	Transport (MVT)	Taxes on motor vehicles	616	1,858	41.95
5.	Stamp and registration	Stamp and registration fees	567	936	12.41
6.	Mines and geology	Non-ferrous mining and metallurgical industries	45	136	18.71
7.	Forest and environment	Forestry and wild life	575	1,576	255.06
8.	Water resources (IPH)	Water rates	109	220	21.98
9.	B&R (PWD)	Public Works Dept	206	312	7.15
10.	Crop husbandry	Horticulture and Agriculture	160	281	1.27
11.	Co-operation	Audit fees and other receipts	50	121	6.61
<b>Total</b>			<b>3,432</b>	<b>8,056</b>	<b>494.43</b>

We have not received even the first replies to be received from the heads of offices within one month from the date of issue of the IRs for 162 IRs issued upto December 2009. 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 PAG in the IRs.

**It is recommended that the Government takes 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 committees meetings**

The Government set up audit committees (May 2009 - January 2010) to monitor and expedite the progress of the settlement of the 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:

**(Rupees in crore)**

Sl. No.	Head of revenue	Number of meetings held	Number of paragraphs settled	Amount
1.	Sales tax	1	21	0.51
2.	Stamp duty and registration fees	1	30	0.66
3.	State excise	1	--	0
4.	Taxes on vehicles	1	14	0.44
5.	Land revenue	1	29	0.09
6.	Forest	1	49	6.10
<b>Total</b>		<b>6</b>	<b>143</b>	<b>7.80</b>

The progress of settlement of paragraphs pertaining to the Excise and Taxation Department, Transport Department and Revenue Department 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 targets for settlement of paragraphs in each meeting and approve suitable action for failure to achieve the targets.**

### **1.2.3 Response of the State Government to draft audit paragraphs**

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the PAG to the Principal Secretaries/Secretaries of the concerned department, drawing their attention to audit findings and requesting them to send their response within four weeks. The fact of non-receipt of the replies from the departments/Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Thirty five draft paragraphs including two reviews proposed to be included in the Report for the year ended 31 March 2010 were sent to the Principal Secretaries/Secretaries of the respective departments by name between February and June 2010. The Principal Secretaries/Secretaries of the departments did not send replies to the draft paragraphs except reviews despite issue of reminders (July 2010). These paragraphs have been included in this report without the response of the Principal Secretaries/Secretaries of the departments.

### **1.2.4 Follow up on Audit Reports- summarised position**

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the departments shall initiate action on the audit paragraphs and the action taken explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for the consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Report(s) were being delayed inordinately. Out of 132 paragraphs (including reviews) included in the Reports of the Comptroller and Auditor General of India on the revenue receipts of the Government of Himachal Pradesh for the years ended 31 March 2005, 2006, 2007 and 2008, which were placed before the Legislature Assembly between 7 April 2006 and 16 December 2008, the action taken

explanatory notes from the concerned departments were received late with average delay of 17, 20, 13 and 9 months in respect of each of these Audit Reports respectively.

### 1.2.5 Compliance with the earlier Audit Reports

In respect of the paragraphs featured in the Audit Reports 2004-05 to 2008-09, the departments/Government accepted audit observations involving ₹ 213 crore of which ₹ 72.81 crore had been recovered till 31 March 2010 as mentioned below:

(Rupees in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2004-05	54.39	7.11	1.89
2005-06	58.32	12.32	0.28
2006-07	82.38	61.28	30.71
2007-08	105.05	5.96	1.01
2008-09	182.02	126.33	38.92
<b>Total</b>	<b>482.16</b>	<b>213.00</b>	<b>72.81</b>

### 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 10 years in respect of Transport Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Transport Department to deal with the cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 1999-2000 to 2008-09.

#### 1.3.1 Position of Inspection Reports

The summarised position of the 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)

Sr. No.	Year	Opening Balance			Addition during the year			Clearance during the quarter			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
1.	1999-2000	453	1,335	4.60	49	276	0.55	51	366	0.66	451	1,245	4.49
2.	2000-01	451	1,245	4.49	46	277	1.08	33	219	0.08	464	1,303	5.49
3.	2001-02	464	1,303	5.49	55	273	1.31	28	194	0.11	491	1,382	6.69
4.	2002-03	491	1,382	6.69	51	312	1.29	54	286	0.51	488	1,408	7.47
5.	2003-04	488	1,408	7.47	56	341	0.21	53	304	0.49	491	1,445	7.19
6.	2004-05	491	1,445	7.19	54	270	5.75	50	218	0.28	494	1,497	12.66
7.	2005-06	494	1,497	12.66	46	208	13.97	08	137	0.12	532	1,568	26.51
8.	2006-07	532	1,568	26.51	55	269	5.97	30	191	3.20	557	1,646	29.28
9.	2007-08	557	1,646	29.28	54	326	9.45	21	160	10.22	590	1,812	28.51
10.	2008-09	590	1,812	28.51	52	299	4.52	20	187	4.34	622	1,924	28.69

Adhoc Committee meetings are arranged by the Government between the department and this office. Spot settlement parties are also formed by this office periodically to watch compliance made by the departments and settle old paragraphs. As would be evident from the above table, against 453 IRs with 1,335 outstanding paragraphs as on 1999-2000, the number of outstanding IRs rose to 622 with 1,924 paragraphs at the end of 2008-09. This is indicative of the fact that sincere efforts were not taken by the department in this regard resulting in piling up of the outstanding IRs and paragraphs.

### **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 10 years, those accepted by the department and the amount recovered are mentioned below:

**(Rupees in lakh)**

<b>Year of Audit Report</b>	<b>Number of paragraphs included</b>	<b>Money value of the paragraphs</b>	<b>Number of paragraphs accepted including money value</b>	<b>Money value of accepted paragraphs</b>	<b>Amount recovered during the year</b>	<b>Cumulative position of recovery of accepted cases as of 31.03-2010</b>
1999-2000	5	72.89	4/47.17	71.73	26.42	27.88
2000-01	4	127.54	3/38.06	38.06	0.52	12.42
2001-02	6	98.53	2/37.07	71.70	--	17.17
2002-03	6	340.85	5/205.83	225.28	1.41	121.39
2003-04	1	2,413.08	1/1,853.83	2,413.08	--	131.46
2004-05	3	49.36	3/40.80	49.36	--	--
2005-06	6	2,120.25	5/955.18	2,114.95	0.61	111.36
2006-07	5	288.78	5/288.78	288.78	--	13.11
2007-08	7	479.17	7/477.00	477.00	1.59	60.88
2008-09	8	566.96	6/60.40	395.83	40.35	40.35

It is evident from the above table that the progress of recovery of accepted cases was very slow through out the last ten years. The recovery of accepted cases was to be pursued as arrears recoverable from parties. No mechanism for pursuance of the accepted cases had been devised and position of arrears including accepted audit recoveries was not available with the Director Transport. In the absence of suitable mechanism in place, the department could not monitor the recovery of accepted cases. The position has been elaborated in Chapter IV of this Audit Report.

**We recommend that the department may take immediate action to install a mechanism to pursue and monitor prompt recovery of dues involved in accepted cases.**

#### **1.3.2.2 Action taken on the recommendations accepted by the departments/Government**

During the period 1999-2000, we conducted the reviews, which were incorporated in the Audit Reports of the year 2002-03 and 2003-04.

The review on "Working of National Permit Scheme" appeared in the Audit

Report for the year 2002-03. We had recommended that;

- internal control mechanism should be devised in the Department to ensure timely remittance of bank drafts and their credit to Government account;
- treasury reconciliation should be carried out every month well in time;
- there should be co-ordination among the states to exchange information regarding number of operators who are authorised to ply their vehicles in other states; and
- the State Government should develop a strong internal control system to check the deficiencies and lapses in implementation of the various provisions of the Acts, Rules and of instructions issued by the State Government/department so that the revenue receipts due to the Government are collected forthwith.

We have observed that none of the recommendations had been implemented so far.

The review on “Levy and collection of the Motor Vehicle Tax” appeared in the Audit Report of the year 2003-04. We had recommended that;

- an effective and efficient system need to be devised and implemented for timely assessment, collection and credit of the Government dues to their proper head of account.
- a system for prompt raising of demands against the defaulters and in case of non-payment, initiation of recovery proceeding under Land Revenue Act, needs to be introduced.
- to put in place an appropriate control mechanism to ensure the proper monitoring at apex levels and proper maintenance of relevant registers/records.
- strict action may be initiated against officials involved in embezzlement cases and strong controls may be instituted to reconcile receipts credited into the Government account.

We are happy to report that all the above recommendations have been accepted and efforts are being made for their implementation. The department is gradually shifting from manual system to the electronic system.

#### **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 the 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, factors of the tax administration, audit coverage and its impact during past 5 years etc.

During the year 2009-10, the audit universe comprised of 450 auditable units, of

which 292 units were planned and audited during the year 2009-10 which is 65 per cent of the total units. The details are available in the Annexure-I.

Besides, the compliance audit mentioned above, two performance reviews 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 292 units of sales tax/Value added tax, state excise, motor vehicles, goods and passengers, forest receipts, and other departmental offices conducted during the year 2009-10 revealed under assessments/short levy/loss of revenue aggregating ₹ 1,520.93 crore in 1,198 cases. During the course of the year, the departments concerned accepted underassessment and other deficiencies of ₹ 63.68 crore involved in 298 cases which were pointed out in audit during 2009-10. The departments collected ₹ 5.10 crore in 257 cases during 2009-10.

### **1.5.2 This Report**

This report contains 35 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years which could not be included in earlier reports) including two performance reviews on “Levy and collection of Motor Vehicle Tax” and “Receipts from Power Sector Projects” relating to short/non-levy of tax, duty and interest penalty etc., involving financial effect of ₹ 1,420.98 crore. The departments/Government have accepted audit observations involving ₹ 829.55 crore out of which ₹ 3.81 crore had been recovered. The replies in the remaining cases have not been received (August 2010). These are discussed in succeeding chapter II to VI.