

CHAPTER-I General

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Punjab 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 and the corresponding figures for the preceding four years are given below:

(₹ in crore)						
Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
1.	Revenue raised by the State Government					
	Tax revenue	8,989.38	9,017.16	9,899.17	11,150.19	12,039.48
	Non-tax revenue ¹	4,536.33	7,744.58	5,253.97	5,783.91	5,652.70
		(1,439.47)	(5,699.85)	(1,787.80)	(2,264.36)	(1,659.29)
	Total	13,525.71 (10,428.85)	16,761.74 (14,717.01)	15,153.14 (11,686.97)	16,934.10 (13,414.55)	17,692.18 (13,698.77)
2.	Receipts from the Government of India					
	Share of net proceeds of divisible Union taxes and duties	1,227.45	1,565.75	1,974.99	2,084.01	2,144.10
	Grants-in-aid	2,213.32	2,239.65	2,109.49	1,694.68	2,320.30
	Total	3,440.77	3,805.40	4,084.48	3,778.69	4,464.40
3.	Total revenue receipts of the State Government (1 and 2)	16,966.48 (13,869.62)	20,567.14 (18,522.41)	19,237.62 (15,771.45)	20,712.79 (17,193.24)	22,156.58² (18,163.17)
4.	Percentage of 1 to 3	80	81	79	82	80

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 17,692.18 crore) was 80 *per cent* of the total revenue receipts (₹ 22,156.58 crore) against 82 *per cent* in the preceding year. The increase in tax revenues was eight *per cent* over the previous year, whereas the non-tax revenues decreased by two *per cent*. The balance 20 *per cent* of the receipts during 2009-10 was received from the Government of India.

¹ The figures shown in brackets are net of expenditure on prize winning tickets of lotteries conducted by the Government.

² For details please see Statement Number 11- Detailed statement of revenue and capital receipts by minor heads in the Finance Accounts of the Government of Punjab for the year 2009-10. Figures under the head 0021 - Taxes on income other than corporation tax-share of net proceeds assigned to States have been excluded from revenue raised by the State and included in the 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 from 2005-06 to 2009-10:

(₹ 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.	VAT ³ / Sales tax	4,270.28	4,503.31	5,014.50	6,166.46	7,264.31	(+) 17.80
	Central sales tax	356.60	325.71	327.99	269.17	313.18	(+) 16.35
2.	State excise	1,568.16	1,367.79	1,861.52	1,809.95	2,100.92	(+) 16.08
3.	Stamp duty and registration fees	1,670.50	1,803.93	1,567.84	1,730.29	1,550.94	(-) 10.37
4.	Taxes and duties on electricity	669.41	527.58	603.80	631.33	230.13	(-) 63.55
5.	Taxes on vehicles	431.19	468.05	499.45	524.09	554.74	(+) 5.85
6.	Other taxes and duties on commodities and services	6.95	5.52	6.76	3.46	9.95	(+) 187.57
7.	Land revenue	16.29	15.27	17.31	15.44	15.31	(-) 0.84
Total		8,989.38	9,017.16	9,899.17	11,150.19	12,039.48	(+) 7.98

The following are the reasons for increase/decrease in receipts during 2009-10 over those of 2008-09, as stated by some of the departments.

Taxes and duties on electricity: Shortfall of 63.55 *per cent* during the year 2009-10 was due to adjustment of subsidy on electricity duty (₹ 270.22 crore) and refund of interest (₹ 269.78 crore) due from the Punjab Government to the Punjab Power Corporation Limited. This was due to non-submission and adjustment of electricity duty by Corporation against the subsidy payable by Government of Punjab to the Corporation on account of agriculture concession.

Taxes on vehicles: The increase of 5.85 *per cent* during the year 2009-10 over the year 2008-09 was due to the efforts of the Department.

The other departments did not intimate (October 2010) the reasons for variations in receipts in 2009-10 from that of the previous year, despite being requested (July 2010).

³ Value Added Tax (VAT) introduced with effect from 1 April 2005.

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

(₹ 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.	Interest receipts	644.07	658.57	348.78	181.98	164.69	(-) 9.50
2.	Dairy development	0.52	0.12	0.09	0.09	0.08	(-) 11.11
3.	Other non-tax receipts	459.44	509.28	441.62	760.97	486.88	(-) 36.02
4.	Forestry and wild life	11.80	14.62	14.70	15.52	26.47	(+) 70.55
5.	Non-ferrous mining and metallurgical industries	10.79	12.72	16.03	37.07	37.99	(+) 2.48
6.	Miscellaneous general services (including State lotteries)	3,244.37	6,386.49	4,189.72	4,567.80	4,780.12	(+) 4.65
7.	Major and medium irrigation	26.17	20.14	20.02	11.85	34.62	(+) 192.15
8.	Medical and public health	44.22	42.82	48.12	47.63	45.13	(-) 5.25
9.	Co-operation	3.37	5.02	4.60	4.55	3.73	(-) 18.02
10.	Public works	11.66	12.26	16.83	17.52	22.60	(+) 29.00
11.	Police	33.62	36.68	44.71	58.58	51.88	(-) 11.44
12.	Other administrative services	46.30	45.86	108.75	80.35	-1.49 ⁴	(-) 101.85
Total		4,536.33 (1,439.47)	7,744.58 (5,699.85)	5,253.97 (1,787.80)	5,783.91 (2,264.36)	5,652.70 (1,659.29)	(-) 2.27 (-) 26.72

The following are the reasons for increase/decrease in receipts during 2009-10 over those of 2008-09, as stated by some of the departments.

Forestry and wild life: The increase of 70.55 *per cent* was due to streamlining of the system of transfer of standing trees to the Punjab State Forest Development Corporation.

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

⁴ Minus figure of ₹ 1.49 crore is due to transfer of ₹ 46.04 crore to Calamity Relief Fund. The amount was misclassified in the year 2008-09.

1.2 Response of the departments/Government towards audit

- Annotated replies of the audit observations are to be submitted by the Government departments to the office of the Principal Accountant General (Audit) within one month from the date of issue of Local Audit Reports (Inspection Reports).
- In case the annotated replies of the audit observations are satisfactory and the documents in support of the replies are duly attested by the competent authority, the para is settled after verification of the documents.
- The audit observations are also settled during audit committee meetings, if the reply of Department is satisfactory.
- The observations which are subjudice remain pending till the decision of the court.
- At the time of next audit, rest of the audit observations are reviewed by the audit party at length and after verification of the record, they are recommended for settlement.

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

The Principal Accountant General (Audit) Punjab (PAG) conducts periodical inspection of the Government departments to test check 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 inspection reports (IRs) incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the heads of 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 to rectify the defects and omissions and report compliance through initial reply to the PAG 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.

We, however, observed that audit observations are not promptly complied and no action is being taken by the departments/Government even after long periods.

Inspection reports issued upto December 2009 disclosed that 9650 paragraphs involving ₹ 3,792.89 crore relating to 4,628 IRs remained outstanding at the end of June 2010 as mentioned below:

	June 2008	June 2009	June 2010
Number of outstanding IRs	4,249	4,494	4,628
Number of outstanding audit observations	8,615	9,227	9,650
Amount involved (₹ in crore)	2,492.14	3,223.30	3,792.89

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amount involved are mentioned below.

SI No.	Name of the Department	Nature of receipt	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1.	Finance	Taxes/VAT on sales, trade etc.	1,948	3,313	235.50
		Electricity duty	16	68	1,900.59
		Entertainments tax, etc.	171	397	11.55
2.	Excise	State excise	151	187	65.52
3.	Revenue	Land revenue	390	973	324.80
4.	Transport	Taxes on motor vehicles	762	2,388	902.38
5.	Stamps and registration	Stamp duty and registration fee	920	1,878	64.29
6.	Forest and environment	Forestry and wild life	202	270	217.76
7.	Lotteries	State Lotteries	68	176	70.50
Total			4,628	9,650	3,792.89

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 306 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 the 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. The details of the audit committee meetings held during the year 2009-10 and the paragraphs settled are mentioned below:

In three audit committee meetings held during the year 2009-10, 160 paras involving ₹ 1.42 crore pertaining to the Excise and Taxation Department under the head “0040-Taxes on sales and trade etc” were settled. The other departments are being pursued to hold the audit committee meetings for expeditious settlement of the outstanding audit observations.

1.2.3 Non-production of records to audit for scrutiny

The programme of local audit of tax revenue/non-tax revenue offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit, to the departments to enable them to keep the relevant records ready for audit scrutiny.

During 2009-10, 333 returns relating to seven offices of Sales Tax/VAT mentioned below were not made available to Audit.

Name of the Office	Year in which the cases were to be audited	Cases requisitioned	Cases produced	Cases not produced
AETC Mohali	2008-09	273	233	40
AETC Barnala	2008-09	167	132	35
AETC Faridkot	2008-09	189	165	24
AETC Ludhiana-I	2006-07	235	179	29
AETC Ludhiana-II	2006-07	597	568	102
AETC Ludhiana-III	2006-07	1,659	1,557	47
AETC Kapurthala	2006-07	386	339	56
Total		3,506	3,173	333

The revenue involved could not be ascertained as the cases pertained to self assessment returns of the dealer, which were not audited by the Department.

1.2.4 Response of the departments to the draft audit paragraphs

On the recommendation of the Public Accounts Committee (PAC), the Department of Finance issued directions to all the departments in October 1967 to send their response to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks. We forward the draft paragraphs to the Secretaries of the Departments concerned through demi official letters drawing their attention to the audit findings and requesting them to send their response within six weeks. The fact of non-receipt of replies from the Government is invariably indicated at the end of each paragraph included in the Audit Report.

Thirty one paragraphs including two reviews in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2010 were forwarded to the secretaries of the respective departments between April 2009 and April 2010 through demi official letters. Replies to 25 of the paragraphs have not been received.

1.2.5 Follow up on the Audit Reports - summarised position

To ensure accountability of the executive in respect of all the issues dealt in the various Audit Reports, the Department of Finance issued instructions in August 1992 to initiate *suo moto* action on all paragraphs/reviews figuring in the Audit Reports irrespective of whether the cases were taken up for examination by the PAC or not. Out of 209 paragraphs/reviews included in the Audit Reports for the period 2003-04 to 2008-09, which had already been laid before the State Legislature, action taken notes (ATNs) in respect of 121 paragraphs/reviews were not received as of June 2010 as mentioned below:

Year of Report	Date of presentation of Audit Report to the legislature	No. of paragraphs/reviews included in the Audit Reports	No. of paragraphs/reviews on which ATNs were due from the departments
2003-04	31 March 2005	23	4
2004-05	13 March 2006	25	7
2005-06	29 March 2007	30	15
2006-07	12 March 2008	32	12
2007-08	4 March 2009	49	33
2008-09	15 March 2010	50	50
Total		209	121

Though the time limit of three months for furnishing the ATNs for the Audit Reports for the period from 2003-04 to 2008-09 has elapsed, the departments have not submitted/furnished the ATNs on the paragraphs.

1.2.6 Compliance with the earlier Audit Reports

During the years between 2004-05 and 2008-09, the departments/Government accepted audit observations involving ₹ 117.45 crore, out of which an amount of ₹ 7.23 crore was recovered till 31 March 2010 as mentioned below:

(₹ in crore)

Sl. No.	Year of Audit Report	Total money value	Accepted money value	Recovery made
1.	2004-05	101.11	32.41	2.07
2.	2005-06	245.62	4.10	2.33
3.	2006-07	197.96	2.90	1.92
4.	2007-08	352.33	35.46	0.63
5.	2008-09	218.15	42.58	0.28
Total		1,115.17	117.45	7.23

The Government may issue appropriate instructions to the concern Departments to make recovery in accepted cases on priority.

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

The succeeding paragraphs 1.3.1 to 1.3.2 discuss the performance of the State 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.

The Department stated that they had constituted audit compliance committees at divisional level which reviewed the pending paragraphs every month. We however, observed that during the year 2009-10 no audit committee meeting under the head “0039 State Excise” was held by the Department with the Principal Accountant General (Audit) Punjab & UT, Chandigarh.

The Department further stated that there existed a system in the Department for monitoring recoveries pointed out in the paragraphs included in the Inspection Reports, Reviews and paragraphs included in the Audit Reports at the level of Commissioner.

We observed that inspite of our reminders to the Department/Government intimating the list of outstanding paragraphs contained in the Inspection Reports and Audit Reports asking them to take necessary steps for their earlier settlement, no action was being taken by the Department/Government.

1.3.1 Position of Inspection Reports

The summarised position of inspection reports issued to the Excise Department during the last 10 years, paragraphs included in these reports and their status as on 30 June 2010 are 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
2000-01	295	389	41.17	36	54	4.53	31	30	0.22	300	413	45.48
2001-02	300	413	45.48	37	40	3.63	18	8	0.39	319	445	48.72
2002-03	319	445	48.72	47	40	3.13	44	53	0.17	322	432	51.68
2003-04	322	432	51.68	35	32	7.42	273	337	16.59	84	127	42.51
2004-05	84	127	42.51	37	32	2.08	56	63	1.28	65	96	43.31
2005-06	65	96	43.31	54	52	2.13	25	17	0.05	94	131	45.39
2006-07	94	131	45.39	44	54	2.85	7	11	0.33	131	174	47.91
2007-08	131	174	47.91	35	29	8.53	44	50	17.25	122	153	39.19
2008-09	122	153	39.19	50	35	13.28	31	13	0.39	141	175	52.08
2009-10	141	175	52.08	52	25	19.08	42	13	5.64	151	187	65.52

We observed that the number of IRs/Paras had increased from 94/131 involving ₹ 45.39 crore in 2005-06 to 151/187 involving ₹ 65.52 crore in 2009-10 i.e. an increase of 61 *per cent* in the number of paras in the last five years whereas the clearance of paras during the same period remained 13.5 *per cent* on an average except during 2007-08.

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

1.3.2.1 Recovery of amount in the 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:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of the accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases
2000-01	1	3.14	Not Accepted	-	-	-
2001-02	2	8.87	Not Accepted	-	-	-
2002-03	1	3.37	Not Accepted	-	-	-
2003-04	1 (Review)	20.84	Not Accepted	-	-	-
2004-05	1	3.18	Not Accepted	-	-	-
2005-06	2	7.02	Not Accepted	-	-	-
2006-07	2 1 (Review)	1.83 64.21	Not Accepted Accepted 2 (Sub-Para)	- 0.54	- -	- Awaited
2007-08	2	3.79	Not Accepted	-	-	-
2008-09	2	10.70	Not Accepted	-	-	-
2009-10	2	2.50	Not Accepted	-	-	-

The Public Accounts committee in its 136th Report (2000-01) recommended that immediate steps be taken to make necessary amendment in the existing Rules so that no undue advantage is taken by the distilleries. Further, in reply to paragraph 4.3 of the Audit Report (Revenue Receipts) for the year 2006-07, the Department intimated that the matter of amending the Rules 35 and 37 of the Punjab Distillery Rules 1932 was under the active consideration of the Government. We, however, observed that no action had been initiated by the Government to amend the rules so far.

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

We conduct performance reviews and forward to the concerned Department/Government for their information with a request to furnish their replies. Our observations are also discussed in the exit conference and the Department's/Government's views are included while finalising the reviews for the Audit Reports.

We conducted the following two reviews on the State Excise Department during the last ten years.

(₹ in crore)

Year of Audit Report	Name of the Review	Number of recommendations contained in the Review	Details of the recommendations accepted	Status
2003-04	"Internal control in relation to manufacture of liquor by the distilleries"	2	Not accepted	-
2006-07	"Auction of vends and sale of liquor"	3	Accepted	Awaited

The Government has yet to initiate/take action on our recommendations.

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 the past five years etc.

During the year 2009-10, the audit universe comprised of 626 auditable units, of which 441 units were planned and audited during the year which is 70.45 *per cent* of the total auditable units. The details are shown in the annexure 'A'.

Besides the compliance audit mentioned above, two performance reviews were also taken up to examine the efficacy of the tax administration of the receipt concerned.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

During test check of the records of sales tax/VAT, state excise, motor vehicles tax, stamp duty and registration fee, other tax and non-tax receipts during the year 2009-10, we found under assessment, short levy, loss of revenue etc. amounting to ₹ 190.91 crore in 1,823 cases. During the year, the departments

accepted under assessment of ₹ 1.93 crore in 679 cases pointed out in 2009-10 and earlier years and recovered ₹ 8.19 crore in 472 cases.

1.5.2 This Report

This report contains 31 paragraphs including two performance reviews on 'Transition from sales tax to value added tax' and 'Levy and collection of stamp duty and registration fee' relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 94.52 crore. The departments/Government have accepted audit observations involving ₹ 32.51 crore, out of which ₹ 7.37 lakh has been recovered. The replies in respect of the remaining cases have not been received (October 2010).