

## CHAPTER-I GENERAL

### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Uttar Pradesh during the year 2010-11, the State's share of divisible Union taxes 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:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
<b>1. Revenue raised by the State Government</b>						
	• Tax revenue	22,997.97	24,959.32	28,658.97	33,877.60	41,355.00
	• Non-tax revenue	6,532.64	5,816.01	6,766.55	13,601.09	11,176.21
	<b>Total</b>	<b>29,530.61</b>	<b>30,775.33</b>	<b>35,425.52</b>	<b>47,478.69</b>	<b>52,531.21</b>
<b>2. Receipts from the Government of India</b>						
	• State's share of divisible Union taxes	23,218.31	29,287.74	30,905.72	31,796.67	43,218.90 <sup>1</sup>
	• Grants-in-aid	7,850.60	8,609.40	11,499.49	17,145.59	15,433.65
	<b>Total</b>	<b>31,068.91</b>	<b>37,897.14</b>	<b>42,405.21</b>	<b>48,942.26</b>	<b>58,652.55</b>
<b>3.</b>	<b>Total receipts of the State (1 and 2)</b>	<b>60,599.52</b>	<b>68,672.47</b>	<b>77,830.73</b>	<b>96,420.95</b>	<b>1,11,183.76</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>49</b>	<b>45</b>	<b>46</b>	<b>49</b>	<b>47</b>

The above table indicates that during the year 2010-11, the revenue raised by the State Government was 47 per cent of the total revenue receipts (₹ 1,11,183.76 crore) against 49 per cent in the preceding year. The balance 53 per cent of receipts during 2010-11 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 Uttar Pradesh for the year 2010-11. Figures under the major heads 0020 - Corporation tax, 0021 - Other taxes on income and expenditure, 0028 - 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 - Share of net proceeds assigned to States 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.

**1.1.2** The following table presents the details of 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	Increase (+) or decrease (-) in 2010-11 with reference to 2009-10	Percentage of increase or decrease with reference to 2009-10
1.	Commercial tax/VAT	13,278.82	15,023.10	17,482.05	20,825.18	24,836.52	(+) 4011.34	19.26
2.	State excise	3,551.25	3,948.40	4,720.01	5,666.06	6,723.49	(+) 1,057.43	18.66
3.	Stamp duty and registration fees	4,513.67	3,976.68	4,138.27	4,562.23	5,974.66	(+) 1,412.43	30.96
4.	Taxes on vehicles	1,017.60	1,145.84	1,124.66	1,403.50	1,816.89	(+) 413.39	29.45
5.	Taxes on goods and passengers	108.70	109.65	266.49	271.05	241.69	(-) 29.36	(-) 10.83
6.	Taxes and duties on electricity	193.92	206.65	216.72	272.16	357.00	(+) 84.84	31.17
7.	Land revenue	187.52	392.53	549.28	663.14	1,134.16	(+) 471.02	71.03
8.	Other taxes and duties on commodities and services	131.57	137.50	140.58	193.34	245.15	(+) 51.81	26.80
9.	Other (hotel receipts, corporation tax, etc.)	14.92	18.97	20.91	20.94	25.44	(+) 4.50	21.49
	<b>Total</b>	<b>22,997.97</b>	<b>24,959.32</b>	<b>28,658.97</b>	<b>33,877.60</b>	<b>41,355.00</b>	<b>7,477.40</b>	<b>22.07</b>

The following reasons for variation were reported by the concerned Departments:

**Commercial Tax/VAT:** The increase was due to more collections on account of Central Sales Tax.

**State Excise:** The increase was due to realisation of more revenue from “Country Spirits” “Foreign liquor and Spirits” and “Other receipts”.

**Stamp and Registration:** The increase was due to sale of more stamps.

**Taxes on Vehicles:** The increase was due to realisation of taxes on sale of vehicles and collection of taxes under the State Motor Vehicles Act.

**Taxes on Goods and Passengers:** The decrease was due to less collection of taxes on goods transported by roads and less transfer of money to UP Transport Relief Fund.

**Land Revenue:** The increase was due to collection of fixed charges, realisation of fixed arrears and current demands of land revenue/taxes, etc.

The other Departments did not inform the reasons for variation (October 2011).

**1.1.3 :** The following table presents the details of the 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	Increase (+) or decrease (-) in 2010-11 with reference to 2009-10	Percentage of increase/decrease with reference to 2009-10
1.	Misc. general services	2,281.23	1,153.53	1,698.79	8,075.13	5,120.67	(-) 2,954.46	(-) 36.59
2.	Interest receipts	828.86	1,247.84	963.87	603.66	689.32	(+) 85.66	14.19
3.	Forestry and wild life	212.37	294.80	271.92	271.29	280.34	(+) 9.05	3.34
4.	Medium irrigation	143.29	319.43	260.91	240.21	148.62	(-) 91.59	(-) 38.13
5.	Education, sports, art and culture	814.96	1,217.62	1,080.61	2,339.86	2,614.11	(+) 274.25	11.72
6.	Other administrative services	99.71	146.10	145.04	147.19	374.46	(+) 227.27	154.41
7.	Non-ferrous mining and metallurgical industries	345.34	395.20	427.31	604.97	653.39	(+) 48.42	8.00
8.	Police	209.60	147.17	160.78	119.34	177.13	(+) 57.79	48.42
9.	Crop husbandry	33.96	51.03	49.64	37.60	42.18	(+)4.58	12.18
10.	Social security and welfare	15.77	19.73	34.06	39.69	49.56	(+)9.87	24.87
11.	Medical and public health	62.67	72.11	618.84	94.35	101.35	(+)7.00	7.42
12.	Minor irrigation	33.02	31.41	31.65	25.26	36.00	(+)10.74	42.52
13.	Roads and bridges	58.83	74.24	60.69	87.10	98.51	(+)11.41	13.10
14.	Public works	26.59	34.03	57.52	72.80	69.45	(-) 3.35	(-) 4.60
15.	Co-operation	7.02	6.33	26.46	16.39	9.38	(-) 7.01	(-) 42.77
16.	Others	1,359.42	605.44	878.46	826.25	711.74	(-)114.51	(-) 13.86
<b>Total</b>		<b>6,532.64</b>	<b>5,816.01</b>	<b>6,766.55</b>	<b>13,601.09</b>	<b>11,176.21</b>	<b>(-) 2,424.88</b>	<b>(-) 17.83</b>

The concerned Departments did not inform the reasons for variation (October 2011).

## 1.2 Response of the Department/Government towards Audit

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

The Accountant General (C&RA), Uttar Pradesh (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 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 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.

We reviewed the IRs issued upto December 2010 and found that 25,501 paragraphs involving ₹ 4,445.39 crore relating to 10,349 IRs remained

outstanding at the end of June 2011, as mentioned below along with the corresponding figures for the preceding two years:

Sl. No.		2009	2010	2011
1.	Number of inspection reports pending settlement	8,547	9,287	10,349
2.	Number of outstanding audit observations	20,222	22,484	25,501
3.	Amount of revenue involved (₹ in crore)	4,559.97	3,757.81	4,445.39

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned below:

Sl. No.	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Amount of revenue involved (₹ in crore)	Year to which the observations relate
1.	Commercial Tax/VAT including Entry tax	3,369	12,047	1,839.35	1984-85 to 2010-11
2.	State Excise	868	1,436	507.19	1984-85 to 2010-11
3.	Land revenue	565	809	28.09	1987-88 to 2010-11
4.	Taxes on vehicle, goods and passengers	921	2,582	234.49	1984-85 to 2010-11
5.	Public works	471	931	64.78	1986-87 to 2010-11
6.	Irrigation	350	749	108.52	1984-85 to 2010-11
7.	Taxes on purchase of sugarcane	97	112	54.29	1985-86 to 2010-11
8.	Stamp duty and registration fees	2,433	4,252	204.34	1984-85 to 2010-11
9.	Agriculture	182	309	22.22	1985-86 to 2010-11
10.	Electricity duty	172	210	166.15	1988-89 to 2010-11
11.	Food and civil supplies	105	179	19.77	1991-92 to 2010-11
12.	Co-operative	93	114	5.97	1985-86 to 2010-11
13.	Entertainment tax	114	199	7.28	1997-98 to 2010-11
14.	Medical and public health	116	480	10.40	2002-03 to 2010-11
15.	Forestry and wild life	490	1,089	1,172.53	2003-04 to 2010-11
16.	Jail	3	3	0.02	2002-03 to 2010-11
<b>Total</b>		<b>10,349</b>	<b>25,501</b>	<b>4,445.39</b>	

This large pendency of the IRs 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 install an effective procedure for prompt and appropriate response to audit observations as well as initiate action against officials/officers who do not 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 below:

Name of Department	Number of meetings held	Number of paras under consideration	Number of paras settled	Amount (₹ in crore)
Commercial tax	26	607	298	2.36
Stamp duty and registration fees	4	814	399	5.99
State excise	9	766	282	36.19
Taxes on vehicles, goods and passengers	2	988	410	9.31
<b>Total</b>	<b>41</b>	<b>3,175</b>	<b>1,389</b>	<b>53.85</b>

In order to expedite clearance of outstanding audit observations, it is necessary that audit committees should meet regularly and ensure appropriate action on all audit observations leading to their settlement.

### 1.2.3 Response of the Departments to the draft audit paragraphs

The Department of Finance issued directions to all the Departments 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 concerned Departments through demi-official letters by the AG, 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 Departments is invariably indicated at the end of each paragraph included in the Audit Report.

33 draft paragraphs and two reviews included in this Report for the year ended 31 March 2011 were forwarded to the Secretaries of the concerned Departments between July 2011 and October 2011 through demi-official letters. The Secretaries of the concerned departments sent replies against two reviews, while replies against draft paragraphs have been received only from the Departments of State Excise and Stamps and Registration. Paragraphs from other Departments have been included in this report without the response of the Government.

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

To ensure accountability of the executive in respect of all the issues dealt in the various Audit Reports (ARs), the Department of Finance issued instructions in June 1987 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 Public Accounts Committee (PAC) or not. Out of 95 paragraphs/reviews included in Audit Reports relating to the period 2005-06 to 2009-10 which have already been laid before the State legislature, no explanatory notes (ENs) in respect of 43 paragraphs/reviews were received in our office as on October 2011. The outstanding ENs dating back to 2005-06 are 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 ENs have been received from the Departments	No. of paragraphs/reviews on which ENs have not been received from the Departments
2005-06	25 January 2007	21	18	3
2006-07	15 February 2008	24	12	12
2007-08	17 February 2009	16	14	2
2008-09	28 January 2010	13	8	5
2008-09 (Stand Alone Report on State Excise)	05 August 2011	1	0	1
2009-10	08 August 2011	20	0	20
<b>Total</b>		<b>95</b>	<b>52</b>	<b>43</b>

### 1.2.5 Compliance with the earlier Audit Reports

In our Audit Reports 2005-06 to 2009-10 cases of under assessment, non/short levy of taxes, loss of revenue, failure to raise demands, etc. involving

₹ 3,557.83 crore were reported. As of October 2011, the Departments concerned have accepted observations of ₹ 950.51 crore and recovered ₹ 15.78 crore. Audit Report-wise details of cases accepted and recovered are mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	906.66	7.91	2.39
2006-07	92.18	1.74	0.37
2007-08	1,035.85	927.83	12.83
2008-09	109.07	4.26	0.03
2008-09 (Stand Alone Report on State Excise)	1,344.56	--	--
2009-10	69.51	8.77	0.16
<b>Total</b>	<b>3,557.83</b>	<b>950.51</b>	<b>15.78</b>

The recovery in respect of the accepted cases is extremely low (1.66 per cent).

**The Government needs to take necessary steps for prompt recovery of the amounts involved, at least in the accepted cases.**

### 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 five years in respect of one Department has been evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Stamp and Registration 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 2005-06 to 2009-10.

#### 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 March 2011 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
2005-06	1518	2756	271.21	153	198	3.46	6	7	0.02	1665	2947	274.65
2006-07	1665	2947	274.65	148	213	4.36	3	4	--	1810	3156	279.01
2007-08	1810	3156	279.01	140	222	7.59	29	108	0.69	1921	3270	285.91
2008-09	1921	3270	285.91	267	437	10.74	335	446	2.96	1853	3261	293.69
2009-10	1853	3261	293.69	394	642	14.96	39	60	0.32	2208	3843	308.33

During the year 2009-10, two Audit Committee meetings were held in which 19 paragraphs involving money value of ₹ 7 lakh were settled. In 2010-11, four Audit Committee meetings were held in which 399 paragraphs involving amounts of ₹ 5.99 crore were settled.

### 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 five years, those accepted by the Department and the amount recovered are mentioned below:

(₹ in crore)						
Year of AR	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
2005-06	3	0.66	--	--	--	--
2006-07	3	0.65	--	--	--	--
2007-08	1 (Review)	87.09	1	50.53	--	--
2008-09	1	4.05	--	--	--	--
2009-10	2	0.69	--	--	--	--

The analysis of the above table shows that the percentage of the paragraphs accepted and their money value is very low. The amount of recovery in relation to the money value of accepted para is nil.

**We recommend that the Department ensure that it recovers at least the amounts involved in the accepted paragraphs.**

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

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

The details of issues highlighted in the review on the Stamp and Registration Department featured in the Audit Report 2007-08 including the recommendations made and the recommendations accepted by the Department are mentioned below:

Year of Audit Report	Title of the review	Number of recommendations	Number of recommendations accepted
2007-08	Deficiencies in charging of stamp duty on valuation of property and different nature of document	5	4

The Department has not yet communicated the action taken on the recommendations given in this report.

### 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 2010-11, the audit universe comprised of 3,300 auditable units, of which 1,882 units were planned and 1,682 units were audited which was 89.37 per cent of the total planned units. The details are shown in the following table:

Sl. No.	Departments	Total number of auditable units	Total number of planned units	Total number of audited units	Arrear units	Percentage of units audited to planned units
1.	Commercial Tax	1420	997	892	105	89.47
2.	State Excise including distilleries	335	236	190	46	80.51
3.	Motor Vehicle Taxes	71	71	71	--	100.00
4.	Co-operative	61	--	--	--	--
5.	Agriculture	122	--	--	--	--
6.	Food and Civil Supplies	61	--	--	--	--
7.	Entertainment tax	71	36	32	04	88.89
8.	Public Works Department	70	24	18	06	75.00
9.	Stamp and Registration	347	347	329	18	94.81
10.	Land Revenue	301	10	09	01	90.00
11.	Irrigation	75	25	21	04	84.00
12.	Medical and Public Health	76	25	19	06	76.00
13.	Electricity Duty	80	--	--	--	--
14.	Jail	30	--	--	--	--
15.	Interest Receipts	31	11	07	04	63.64
16.	District Mines Officer	36	12	11	01	91.67
17.	Forestry and Wild Life	113	88	83	5	94.32
	<b>Total</b>	<b>3300</b>	<b>1882</b>	<b>1682</b>	<b>200</b>	<b>89.37</b>

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

Our test check of the records of 1,682 Commercial tax, State excise, Motor vehicles tax, Stamp duty and Registration fee, Forest and other Departmental offices conducted during the year 2010-11 revealed under assessments/short levy/loss of revenue aggregating ₹ 682.45 crore in 4,425 cases. During the course of the year, the Departments concerned accepted under assessments and other deficiencies of ₹ 10.11 crore involved in 913 cases of which 42 cases involving ₹ 10.86 lakh were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ nine crore in 625 cases during 2010-11.

### 1.5.2 This report

This report contains 35 paragraphs including two reviews on “**Utilisation of declaration forms in inter State trade and commerce**” and “**Computerisation in Motor Vehicles Department**” relating to short/non-levy of tax, duty and interest, penalty etc., involving financial effect of ₹ 100.50 crore. The Departments/Government have accepted audit observations involving ₹ 17.09 crore out of which ₹ 71.84 lakh has been recovered. The replies in the remaining cases have not been received (October 2011). These cases are discussed in the succeeding Chapters II to VI.