

Chapter-1

General

CHAPTER - 1

GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Jammu and Kashmir during the year 2014-15, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table-1.1**.

Table - 1.1
Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Revenue raised by the State Government					
	• Tax revenue	3482.58	4745.49	5832.43	6272.74	6333.95
	• Non-tax revenue	1093.11	2001.64	2160.19	2869.69	1978.05
	Total	4575.69	6747.13	7992.62	9142.43	8312.00
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	3066.98	3495.11	3870.37	4142.10	4477.23
	• Grants-in-aid	14590.98	14540.72	14353.87	13843.45	16149.36
	Total	17657.96	18035.83	18224.24	17985.55	20626.59
3.	Total revenue receipts of the State Government (1 and 2)	22233.65	24782.96	26216.86	27127.98	28938.59
4.	Percentage of 1 to 3	21	27	30	34	29

The above table indicates that during the year 2014-15, the revenue raised by the State Government (₹8312 crore) was 29 *per cent* of the total revenue receipts. The balance 71 *per cent* of the receipts during 2014-15 was from the Government of India. Revenue receipt of the state showed an increasing trend from 2010-11 to 2013-14 but decreased in the year 2014-15. It was mainly due to decrease in the non-tax receipt of the State.

1.1.2 The details of the tax revenue raised during the period 2010-11 to 2014-15 are given in **Table-1.2**.

Table-1.2
Details of Tax Revenue raised

(₹ in crore)

Sl. No	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in	
		Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Actual over Budget Estimate during 2014-15	Actual in 2014-15 over 2013-14
1	Taxes on sales, trade etc.	2572.69	2424.52	3419.32	3414.01	4218.57	4174.39	4799.00	4578.81	4530.00	4601.52	1.58	0.50
2	Taxes on Goods & Passengers	358.10	337.16	439.00	457.93	474.40	504.91	559.00	565.53	562.00	557.81	(-) 0.75	(-) 1.37
3	State excise	307.00	337.24	383.00	385.47	413.00	421.28	442.00	440.06	462.00	466.08	0.88	5.91
4	Taxes and duties on electricity	214.00	147.50	262.00	179.12	423.36	277.86	504.00	276.94	466.02	313.40	(-) 32.75	13.17
5	Stamps Duty	72.73	78.58	133.27	170.97	270.55	240.14	321.93	260.68	215.16	247.98	15.25	(-) 4.87
6	Motor Vehicles Tax	113.10	115.33	128.50	104.52	139.00	117.89	153.00	134.23	160.40	132.34	(-) 17.49	(-) 1.41
7	Land revenue	5.22	42.03	25.00	33.00	35.60	95.45	40.80	15.97	42.22	14.58	(-) 65.47	(-) 8.70
8	Others ¹	0.20	0.22	0.51	0.47	0.54	0.51	0.54	0.52	0.60	0.24	(-) 60.00	(-) 53.85
	Total	3643.04	3482.58	4790.60	4745.49	5975.02	5832.43	6820.27	6272.74	6438.40	6333.95		

There was huge variation between the budget estimates and actuals ranging between (+) 15.25 and (-) 65.47 per cent. The reasons for decrease in actuals as compared to budget estimates though called for were not provided. Tax receipts in all the heads except land revenue, shows an increasing trend from 2010-11 to 2014-15. Receipt under Land Revenue has shown a decreasing trend from the year 2012-13 to 2014-15 and it decreased from ₹95.45 crore in 2012-13 to ₹14.58 crore in 2014-15. The reasons for the decrease were not provided by the department.

The details of the non-tax revenue raised during the period 2010-11 to 2014-15 are indicated in **Table-1.3**.

¹ Taxes and Duties on Commodities and Services (Entertainment tax)

Table-1.3
Details of Non-tax revenue raised

(₹ in crore)

Sl. No	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in	
		Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Budget Estimate	Actual	Actual over Budget Estimate during 2014-15	Actual in 2014-15 over 2013-14
1.	Power	1208.61	822.09	1486.22	1006.93	2387.29	1588.62	2840.60	1533.09	2629.90	1427.73	(-) 45.71	(-) 6.87
2.	Forestry and wild life	52.63	47.47	55.57	55.20	68.07	59.31	67.53	67.90	70.80	70.85	0.07	4.34
3.	Police	15.05	10.99	17.60	24.91	24.50	28.34	65.00	56.75	87.75	19.97	(-) 77.24	(-) 64.81
4.	Non-ferrous, Mining & metallurgical Ind.	28.15	34.51	43.00	41.18	50.35	54.02	60.18	53.35	60.40	48.50	(-) 19.70	(-) 9.09
5.	Water supply & Sanitation	26.20	15.97	34.50	20.56	37.00	31.92	43.57	38.03	49.50	36.90	(-) 25.45	(-) 3.97
6.	Public works	20.68	23.58	22.29	25.94	24.97	27.19	26.49	23.57	27.80	23.13	(-) 16.80	(-) 1.87
7.	Medical and Public Health	14.61	9.40	17.38	14.55	20.25	18.08	22.63	15.70	23.77	22.69	(-) 4.54	44.52
8.	Interest receipts	21.32	10.33	22.30	33.06	21.94	16.38	21.50	12.80	23.19	13.58	41.44	6.09
9.	Other Non-tax receipts*	87.48	118.76	152.58	779.31	184.40	336.33	252.36	1068.50	180.55	314.70	74.30	(-) 70.55
	Total	1474.73	1093.10	1851.44	2001.64	2818.77	2160.19	3399.86	2869.69	3153.66	1978.05		

*0050-Dividends and Profits, 0051-Public Service Commission, 0056-Jails, 0058-Stationery and Printing, 0070-Other Administrative services, 0071-Contributions and Recoveries towards Pension and Other retirement benefits, 0075-Miscellaneous General services, 0202-Education, Sports Art and Culture, 0211-Family Welfare, 0216-Housing, 0217-Urban Development, 0220-Information and Publicity, 0230-Labour & Employment, 0235-Social Security and Welfare, 0250-Other Social Services, 0401-Crop Husbandry, 0403-Animal Husbandry, 0405-Fisheries, 0425-Cooperation, 0435-Other Agriculture Programmes, 0506-Land Reforms, 0515-Other Rural Development Programmes, 0575-Other Special Area Programmes, 0701-Major and Medium Irrigation, 0702-Minor Irrigation, 0851-Village and Small Industries, 0852-Industries, 1054-Roads and Bridges, 1452-Tourism, 1475-Other General Economic Service.

The variations between budget estimates and actual realisation of non-tax under various heads was between (+) 74.30 and (-) 77.24 per cent during 2014-15. There was an increase ranging between 4.34 and 44.52 per cent in actual collections from Forestry/ Wild Life, Medical and Public Health and Interest Receipts over the previous year whereas the receipt under the Power, Police, Non-ferrous mining and metallurgical industries, Water supply and sanitation, Public works and Other non-tax receipts were respectively decreased by 6.87, 64.81, 9.09, 3.97, 1.87 and 70.55 per cent.

The decrease in Police receipts was mainly due to less collection of revenue under minor head of revenue accounts viz. Fees, Fines and Forfeitures while the increase in Medical and Public Health was due to increase in collection under the head 'Urban Health Services'.

There was collection of ₹1427.73 crore against the Budgeted Estimates of ₹2629.90 crore in respect of Power during 2014-15. Reasons for less collection though called for were not intimated (December 2015) by the Department.

1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2015 on some principal heads of revenue amounted to ₹1326.23 crore of which ₹849.49 crore was outstanding for more than five years, as detailed in the **Table-1.4**.

Table-1.4
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total Amount outstanding as on 31 March 2015	Amount outstanding for more than five years as on 31 March 2015	Replies of Department
1.	Taxes on Sales/ VAT Trade etc	1243.89	790.95	The process of recovery is initiated through Collector (Dy. Commissioner Commercial Taxes, Recovery) who initiates recovery proceedings under the J&K VAT Act, 2005, the J&K GST Act, 1962 read with the J&K Land Revenue Act Samvat, 1966. Action has been taken under Land Revenue Act for recoverable arrears in 125 cases (₹7.07 crore). In 155 cases (₹40.80 crore) recovery has been stayed by the Hon'ble High Court and recovery notices have been issued in 15 cases involving ₹0.04 crore.
2.	Passenger tax	34.43	26.64	
3.	Entertainment tax	0.21	0.21	
4.	Toll Tax	28.69	27.06	
5.	State Excise	19.01	4.63	
Total		1326.23	849.49	

1.3 Arrears in assessments

The details of cases pending at the beginning of the year, cases becoming due for assessment, cases disposed of during the year and number of cases pending for finalization at the end of the year as furnished by the Commercial Taxes Department in respect of Sales Tax/ VAT and Taxes on Works contracts are given in **Table-1.5**.

Table-1.5
Arrears in assessments

Head of revenue	Opening balance	New cases due for assessment during 2014-15	Total assessments due	Cases disposed of during 2014-15	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/VAT	6102	12394	18496	11572	6923	63
Tax on Works contract	36497	13513	50010	15942	34068	32

The assessments completed to the total cases due for assessment was 63 per cent

in respect of Sales Tax/ VAT and 32 *per cent* in the case of Taxes on Works contract. Moreover, the cases disposed of by the Commercial Taxes Department under Sales Tax/ VAT were slightly lower than new cases which had become due for assessment.

1.4 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Commercial Tax Department, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table-1.6**.

Table-1.6
Evasion of Tax

(₹ in crore)

Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalization as on 31 March 2015
				Number of cases	Amount of demand	
Sales Tax/VAT	457	1626	2083	1521	18.60	562
Total	457	1626	2083	1521	18.60	562

(Source: Data furnished by the Department)

Against the total demand of ₹18.60 crore raised in 1521 cases during 2014-15, an amount of ₹75.06 lakh had been recovered which is only 4 *per cent* of the total recoverable amount. The reasons for slow pace of recovery and latest status of recovery have not been furnished by the Department (December 2015).

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2014-15 as reported by the Department is given in **Table-1.7**.

Table-1.7
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax / VAT	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	7	0.13
2.	Claims received during the year	6	1.77
3.	Refunds made during the year	10	0.17
4.	Balance outstanding at the end of the year	3	1.73

(Source: Data furnished by the Department)

1.6 Response of the Government/ departments towards audit

The Accountant General (Audit), Jammu and Kashmir, 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 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 four weeks from the date of receipt of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection reports issued upto December, 2014 in respect of Commercial Taxes, State Excise and Motor Vehicles Department disclosed that 2870 paragraphs involving ₹1186.05 crore relating to 643 IRs remained outstanding at the end of June 2015 as mentioned below alongwith the corresponding figures for the preceding two years in **Table-1.8**.

Table-1.8
Details of pending Inspection Reports

	June 2013	June 2014	June 2015
Number of IRs pending for settlement	550	609	643
Number of outstanding audit observations	2392	2725	2870
Amount of revenue involved (₹ in crore)	1011.30	1172.99	1186.05

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved in respect of Finance, State Excise and Transport Department (Revenue Sector) are mentioned in the **Table-1.9**.

Table-1.9
Department-wise details of IRs

Sl. No	Name of the Department	Nature of receipts	(₹ in crore)		
			Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes on Sales, Trade etc.	398	2175	1035.49
		Passenger & Goods Tax	14	60	31.91
2.	Excise	State Excise	133	294	96.12
3.	Transport	Taxes on Motor Vehicles	98	341	22.53
Total			643	2870	1186.05

Audit did not receive even the first replies from the heads of offices within four weeks from the date of receipt for 49 IRs out of 51 IRs issued during 2014-15. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs. Further, no Audit committee was constituted by the State Government for discussion of pending objections relating to tax revenue (Commercial Taxes, State Excise and Motor Vehicles).

The Government may consider to have an effective system for prompt and appropriate response to audit observations.

1.7 Position of Inspection Reports

The summarized position of the Inspection Reports of Departments of Finance, Excise and Transport (Revenue Sector) issued during the last five years, paragraphs included in these Reports and their status as on 31 March 2015 are tabulated below in **Table-1.10**.

Table-1.10
Position of Inspection Reports

(₹ in crore)

Sl. 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.	2010-11	540	1891	1625.48	65	280	132.61	6	118	31.21	599	2053	1726.88
2.	2011-12	599	2053	1726.88	72	341	57.14	20	107	41.66	651	2287	1742.36
3.	2012-13 ²	515	2296	972.26	67	389	277.20	7	213	225.70	575	2472	1023.77
4.	2013-14	575	2472	1023.77	56	515	180.29	14	157	15.77	617	2830	1188.29
5.	2014-15	617	2830	1188.29	59	553	67.00	08	194	24.93	668	3189	1230.36

Since the Government of J&K had not constituted any Audit Committee for settlement of old paragraphs, with the result, the position of outstanding IRs, Paras with corresponding money value (Commercial Taxes, State Excise and Motor Vehicles) increased as is evident from the above table. This indicates that adequate steps were not taken by the department resulting in increase of the outstanding IR's and Paragraphs.

² Figures worked out after restructuring (April 2012) of the Organisation on Sectoral basis

1.8 Follow up on Audit Reports

1.8.1 Non-submission of Suo-motu Action Taken Notes

To ensure accountability of the executives to the issues dealt with in various Audit Reports, the State Government (Finance Department) issued instructions in June 1997 to the administrative departments to furnish to Public Accounts Committee (PAC)/ Committee on Public Undertakings (COPU), *suo-motu* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports irrespective of the fact that these are taken up for discussion by these Committees or not. These ATNs are to be submitted to these Committees duly vetted by the Accountant General (Audit) within a period of three months from the date of presentation of Audit Reports in the State Legislature.

It was, however, noticed that out of 98 audit paragraphs featuring in the Chapter of Revenue Sector of Audit Reports from 2000-01 to 2013-14³, *suo-motu* ATNs in respect of 76 audit paragraphs had not been received upto 31 March 2015.

1.8.2 Action taken on recommendations of the PAC

Action Taken Notes, duly vetted by the Accountant General (Audit) on the observations/recommendations made by the PAC/ COPU in respect of the audit paragraphs discussed by them are to be furnished to these Committees within six months from the date of such observations/ recommendations. Out of 93 audit paragraphs featuring in the Revenue Sector Chapter of Audit Reports for the years from 2000-01 to 2012-13, only 15 audit paragraphs have been discussed by the PAC up to 31 March 2015. Recommendations in respect of 14 audit paragraphs including nine discussed partly have been made by the PAC, however, ATNs on the recommendations of the Committees is pending from the State Government in respect of 11 paragraphs.

1.8.3 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 **Table-1.11**.

³ Audit Report 2013-14 presented in the Jammu and Kashmir State Legislature on 27 March 2015

Table-1.11

(₹ in crore)

Year of 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 2014-15	Cumulative position of recovery of accepted cases as of 31 March 2015
2009-10	6	1.80	6	1.80	Nil	Nil
2010-11	10	39.90	10	31.41	Nil	0.002
2011-12	7	80.10	7	80.10	Nil	0.42
2012-13	6	244.53	6	244.53	0.01	0.10
2013-14	5	09.28	5	1.11	Nil	0.04
Total		375.61		358.95	0.01	0.562

It would be seen from the above that in respect of paragraphs featured in the Audit Reports 2009-10 to 2013-14, the Department/Government accepted audit observations involving ₹358.95 crore, of which only ₹0.56 crore was recovered upto 2014-15, which is only 0.15 *per cent* of the accepted amount. This shows that the Department/ Government could not recover the dues fully even in the cases where the audit observations had been accepted.

The Department may ensure prompt recovery of dues involved in the accepted cases.

1.9 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 five years etc.

During the year 2014-15, there were 130 auditable units, of revenue receipts (Commercial Taxes, State Excise & Transport) out of which 50 units were planned and 55 units had been audited.

1.10 Results of audit

Position of local audit conducted during the year

Test-check of the records of 55 units of Sales tax/ Value Added Tax, State Excise, Transport, conducted during the year 2014-15 showed under assessment/ short levy/ loss of revenue aggregating ₹175.12 crore in 1218 cases. During the year, the Departments concerned accepted under assessment and other deficiencies of ₹13.31 crore involved in 125 cases which were pointed out in audit during 2014-15 and earlier years. The Departments collected ₹50.10 lakh⁴ in 90 cases pertaining to audit findings of previous years as well as of the year 2014-15.

1.11 Coverage of this Report

This Report contains one performance Audit on “**System of Assessments under VAT**”, one follow-up audit on Levy and collection of Electricity Duty and Fee and three paragraphs involving revenue implication of ₹93.66 crore relating to inadmissible allowances of ITC, misclassification/ concealment of turnover/ purchases, grant of incorrect exemption of tax, non-levy of penalty, non-levy of electricity duty and non-conducting of statutory inspections etc. The Departments/ Government have accepted audit observations involving ₹1.67 crore in 16 cases, out of which ₹15.37 lakh have been recovered in four cases.

⁴ 2014-15: ₹0.09 lakh (Two cases) and prior to 2014-15: ₹50.01 lakh (88 cases)