

**PART 'A'**  
**REVENUE SECTOR**



***Chapter-1***  
***General***  
***(Revenue Sector)***



## CHAPTER - 1

### GENERAL

#### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenues raised by the Government of Jammu and Kashmir during the year 2015-16, 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 in **Table-1.1** below.

**Table-1.1 : Trend of revenue receipts**

(₹ in crore)

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	4745.49	5832.43	6272.74	6333.95	7326.19
	• Non-tax revenue	2001.64	2160.19	2869.69	1978.05	3912.79
	<b>Total</b>	<b>6747.13</b>	<b>7992.62</b>	<b>9142.43</b>	<b>8312.00</b>	<b>11238.98</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	3495.11	3870.37	4142.10	4477.23	7813.48
	• Grants-in-aid	14540.72	14353.87	13843.45	16149.36	16728.14
	<b>Total</b>	<b>18035.83</b>	<b>18224.24</b>	<b>17985.55</b>	<b>20626.59</b>	<b>24541.62</b>
<b>3.</b>	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>24782.96</b>	<b>26216.86</b>	<b>27127.98</b>	<b>28938.59</b>	<b>35780.60</b>
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>27</b>	<b>30</b>	<b>34</b>	<b>29</b>	<b>31</b>

(Source: State Finance Accounts 2015-16)

During the year 2015-16, the overall receipts of the State increased by 23.6 per cent over the previous year. The revenue raised by the State Government (₹11,238.98 crore) was 31 per cent of the total revenue receipts against 29 per cent in the preceding year. The balance 69 per cent of the receipts during 2015-16 was from the Government of India (GoI) of which 68.16 per cent came in the form of grants-in-aid. The grants-in-aid from GoI constituted 46.75 per cent of the total receipts of the State.

**1.1.2** The details of the tax revenue raised during the period 2011-12 to 2015-16 are given in **Table-1.2**.

Table-1.2 : Details of Tax Revenue raised

(₹ in crore)

Sl. No	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		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 2015-16	Actual in 2015-16 over 2014-15
1.	Taxes on sales, trade, etc.	3419.32	3414.01	4218.57	4174.39	4799.00	4578.81	4530.00	4601.52	5985.00	5276.54	(-) 11.84	14.67
2.	Taxes on Goods & Passengers	439.00	457.93	474.40	504.91	559.00	565.53	562.00	557.81	715.00	666.21	(-) 6.82	19.43
3.	State excise	383.00	385.47	413.00	421.28	442.00	440.06	462.00	466.08	485.00	532.82	9.86	14.32
4.	Taxes and duties on electricity	262.00	179.12	423.36	277.86	504.00	276.94	466.02	313.40	350.71	428.87	22.29	36.84
5.	Stamps Duty	133.27	170.97	270.55	240.14	321.93	260.68	215.16	247.98	260.00	264.23	1.63	6.56
6.	Motor Vehicles Tax	128.50	104.52	139.00	117.89	153.00	134.23	160.40	132.34	183.60	145.15	(-) 20.94	9.68
7.	Land revenue	25.00	33.00	35.60	95.45	40.80	15.97	42.22	14.58	8.68	12.18	40.32	(-) 16.46
8.	Others <sup>1</sup>	0.51	0.47	0.54	0.51	0.54	0.52	0.60	0.24	0.10	0.19	90.00	(-) 20.83
	<b>Total</b>	<b>4790.60</b>	<b>4745.49</b>	<b>5975.02</b>	<b>5832.43</b>	<b>6820.27</b>	<b>6272.74</b>	<b>6438.40</b>	<b>6333.95</b>	<b>7988.09</b>	<b>7326.19</b>		

(Source: State Budget 2016-17 and Finance Accounts 2015-16)

There was huge variation between the budget estimates and actuals ranging between (+) 90 and (-) 20.94 per cent. This was indicative of the budget estimates being either unrealistic or the revenue collection machinery failing to collect the realisable revenue. The reasons for decrease in actuals as compared to the budget estimates were not provided to audit though called for. Tax receipts under the head 'Land revenue' has shown a decreasing trend from ₹95.45 crore in 2012-13 to ₹12.18 crore in 2015-16. The reasons for the decrease were not intimated by the department (October 2016).

The details of the non-tax revenue raised during the period 2011-12 to 2015-16 are indicated in **Table-1.3**.

<sup>1</sup> 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	2011-12		2012-13		2013-14		2014-15		2015-16		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 2015-16	Actual in 2015-16 over 2014-15
1.	Power	1486.22	1006.93	2387.29	1588.62	2840.60	1533.09	2629.90	1427.73	2979.60	1477.22	(-) 50.42	3.47
2.	Forestry and wild life	55.57	55.20	68.07	59.31	67.53	67.90	70.80	70.85	76.09	67.84	(-) 10.84	(-) 4.25
3.	Police	17.60	24.91	24.50	28.34	65.00	56.75	87.75	19.97	66.20	34.11	(-) 48.47	70.80
4.	Non-ferrous, Mining & metallurgical Ind.	43.00	41.18	50.35	54.02	60.18	53.35	60.40	48.50	65.10	57.23	(-) 12.09	18.00
5.	Water supply & Sanitation	34.50	20.56	37.00	31.92	43.57	38.03	49.50	36.90	57.20	45.77	(-) 19.98	24.04
6.	Public works	22.29	25.94	24.97	27.19	26.49	23.57	27.80	23.13	23.87	27.55	15.41	19.11
7.	Medical and Public Health	17.38	14.55	20.25	18.08	22.63	15.70	23.77	22.69	24.99	22.53	(-) 9.84	(-) 0.71
8.	Interest receipts	22.30	33.06	21.94	16.38	21.50	12.80	23.19	13.58	22.77	96.35	323.14	609.50
9.	Other Non-tax receipts*	152.58	779.31	184.40	336.33	252.36	1068.50	180.55	314.70	139.15	2084.19	1397.80	562.28
	<b>Total</b>	<b>1851.44</b>	<b>2001.64</b>	<b>2818.77</b>	<b>2160.19</b>	<b>3399.86</b>	<b>2869.69</b>	<b>3153.66</b>	<b>1978.05</b>	<b>3454.97</b>	<b>3912.79</b>		

(Source: State Budget 2016-17 and Finance Accounts 2015-16)

\*0050-Dividends and Profits, 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, 0216-Housing, 0217-Urban Development, 0220-Information and Publicity, 0230-Labour & Employment, 0235-Social Security and Welfare, 0401-Crop Husbandry, 0403-Animal Husbandry, 0405-Fisheries, 0425-Cooperation, 0435-Other Agriculture Programmes, 0515-Other Rural Development Programmes, 0575-Other Special Area Programmes, 0701-Major and Medium Irrigation, 0702-Minor Irrigation, 0851-Village and Small 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 ranged between (+) 1,397.80 and (-) 50.42 per cent during 2015-16. There was an increase ranging between 3.47 and 609.50 per cent in actual collections from Power, Police, Non-ferrous mining and metallurgical industries, Water supply and sanitation, Public Works, Interest receipts and Other non-tax receipts over the previous year whereas receipts under Forestry/Wild Life and Medical and Public Health decreased by 4.25 and 0.71 per cent respectively.

There was collection of ₹1,477.22 crore against the budgeted estimates of ₹2,979.60 crore in respect of Power during 2015-16. Reasons for less collection though called for were not intimated (October 2016) by the Department.

## 1.2 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-1.4**.

**Table-1.4: Arrears in Assessments**

Head of revenue	Opening balance	New cases due for assessment during 2015-16	Total assessments due	Cases disposed of during 2015-16	Balance at the end of the year	Percentage of disposal (col. 5 to 4)
1	2	3	4	5	6	7
Sales Tax/VAT	6924	15149	22073	11477	10596	52
Tax on Works contract	34068	7754	41822	13740	28082	33

(Source: Data provided by the department)

Out of the total cases due for assessment, 52 per cent of the assessments were completed in respect of Sales Tax/VAT and 33 per cent in the case of taxes on works contracts. There was a decreasing trend in disposal of assessment cases in respect of Sales Tax/VAT from the year 2014-15 to 2015-16 as 63 per cent of cases were disposed of during 2014-15 while it was only 52 per cent in the year 2015-16.

## 1.3 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Commercial Taxes Department, cases finalised and the demands for additional tax raised as reported by the Department are given in **Table-1.5** below.

**Table-1.5: Evasion of Tax**

(₹ in crore)

Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	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 2016
				Number of cases	Amount of demand	
Sales Tax/VAT	538 <sup>2</sup>	5109	5647	2445	39.93	3202
Passenger tax	Nil	1038	1038	640	1.10	398
<b>Total</b>	<b>538</b>	<b>6147</b>	<b>6685</b>	<b>3085</b>	<b>41.03</b>	<b>3600</b>

(Source: Data furnished by the Department)

<sup>2</sup> Variation with the closing balance reflected in Audit Report 2014-15 is due to revised figures communicated by the department



Against the total demand of ₹41.03 crore raised in 3,085 cases during 2015-16, an amount of only ₹2.27 crore had been recovered which is 5.53 per cent of the total recoverable amount. The reasons for slow pace of recovery were not furnished by the Department (October 2016).

#### 1.4 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2015-16, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2015-16 as reported by the Department is given in **Table-1.6**.

**Table-1.6: 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	3	1.73
2.	Claims received during the year	11	0.67
3.	Refunds made during the year	3	0.61
4.	Balance outstanding at the end of the year	11	1.79

(Source: Data furnished by the Department)

Reasons for non-settlement of the remaining cases at the end of the year 2015-16 were not intimated (October 2016).

#### 1.5 Response of the departments towards audit

The Accountant General (Audit), Jammu and Kashmir, conducts periodical inspection of the departments to test-check the transactions and verify the maintenance of important accounting and other records as prescribed in the rules and procedures. These inspections are followed up with the Inspection Reports (IRs) incorporating the audit findings 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 take necessary corrective action on the observations contained in the IRs, rectify the defects and omissions and report compliance to the Accountant General 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.

A total of 3,400 paragraphs involving ₹1,276.83 crore relating to 711 IRs issued upto December 2015 in respect of Commercial Taxes, State Excise, Motor Vehicles and Law Department remained outstanding at the end of June 2016 as depicted in **Table-1.7** along with the corresponding figures for the preceding two years.

**Table-1.7: Details of Pending Inspection Reports**

	June 2014	June 2015	June 2016
Number of IRs pending for settlement	609	643	711
Number of outstanding audit observations	2725	2870	3400
Amount of revenue involved (₹ in crore)	1172.99	1186.05	1276.83

Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved in respect of Finance, State Excise, Transport and Law Department (Revenue Sector) are mentioned in **Table-1.8** below.

**Table-1.8: Department-wise details of Inspection Reports and Audit Observations**

(₹ in crore)

Sl. No	Name of the Department	Nature of receipts	Numbers of outstanding IRs	Numbers of outstanding audit observations	Money value involved
1.	Finance	Taxes on Sales, Trade, etc.	439	2561	1094.88
		Passenger & Goods Tax	10	45	31.48
2.	Excise	State Excise	143	313	111.00
3.	Transport	Taxes on Motor Vehicles	109	414	38.76
4.	Law	Stamp duty and Registration fee	10	67	0.71
<b>Total</b>			<b>711</b>	<b>3400</b>	<b>1276.83</b>

Audit did not receive responses from the heads of offices within four weeks from the date of receipt for 67 IRs out of 70 IRs issued during 2015-16. This 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 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, Motor Vehicles and Stamp Duty and Registration fee).

It is recommended that the Government should (a) ensure prompt action on audit observations and sending of replies to the Accountant General within the stipulated time and (b) advise the departments to hold regular meetings of the Audit Committees and monitor the progress of settlement of paragraphs.

## **1.6 Position of Inspection Reports**

The summarized position of the Inspection Reports of the Departments of Finance, Excise, Law and Transport (Revenue Sector) issued during the last five years, paragraphs included in these IRs and their clearance as on 31 March 2016 are tabulated in **Table-1.9**.

Table-1.9: 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.	2011-12	599	2053	1726.88	72	341	57.14	20	107	41.66	651	2287	1742.36
2.	2012-13 <sup>3</sup>	515	2296	972.26	67	389	277.20	7	213	225.70	575	2472	1023.77
3.	2013-14	575	2472	1023.77	56	515	180.29	14	157	15.77	617	2830	1188.29
4.	2014-15	617	2830	1188.29	59	553	67.00	08	194	24.93	668	3189	1230.36
5.	2015-16	668	3189	1230.36	70	494	76.86	07	140	25.90	731	3543	1281.32

The clearance and settlement of audit paragraphs at the end of each year was minuscule ranging from four *per cent* to eight *per cent* of the total number of pending audit paragraphs. Lack of executive action on audit observations weakens accountability and raises the risk of avoidable loss of revenue. The continuous increase in the number of pending audit paragraphs merits the attention of the Government to ensure effective mechanisms to regularly monitor and review the compliance and settlement of audit observations including constitution of Audit Committees in each department.

## 1.7 Follow up on Audit Reports

### 1.7.1 Non-submission of Action Taken Notes

The State Government (Finance Department) issued instructions in June 1997 to all administrative departments to furnish Action Taken Notes (ATNs) on all audit paragraphs featuring in the Audit Reports to the Public Accounts Committee (PAC) irrespective of whether they were taken up for discussion by the Committee or not. These ATNs are to be submitted to the Committee duly vetted by the Accountant General (Audit) within a period of three months from the date of presentation of the Audit Reports in the State Legislature.

It was noticed that out of 103 audit paragraphs featuring in the Chapters of Revenue Sector of Audit Reports from 2000-01 to 2014-15<sup>4</sup>, ATNs in respect of 80 audit paragraphs had not been received upto 31 March 2016.

### 1.7.2 Action taken on recommendations of the Public Accounts Committee

Action Taken Notes, duly vetted by the Accountant General (Audit) on the observations/recommendations made by the PAC in respect of audit paragraphs discussed by them are to be furnished to the Committee within six months from the date of such observations/recommendations. Out of 103 audit paragraphs

<sup>3</sup> Figures worked out after restructuring (April 2012) of the Organisation on Sectoral basis

<sup>4</sup> Audit Report 2014-15 presented in the Jammu and Kashmir State Legislature on 27 June 2016

featuring in the Revenue Sector Chapters of Audit Reports for the years from 2000-01 to 2014-15, sixteen audit paragraphs had been discussed by the PAC up to 31 March 2016. 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.

### **1.7.3 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-1.10** below.

**Table-1.10: Recovery of Accepted Cases**

(₹ 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 2015-16	Cumulative position of recovery of accepted cases as of 31 March 2016
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	Nil	0.10
2013-14	5	09.28	5	1.11	Nil	0.04
2014-15	4	0.76	4	0.76	0.02	0.10
<b>Total</b>		<b>374.57</b>		<b>357.91</b>	<b>0.02</b>	<b>0.662</b>

It would be seen from the above that in respect of paragraphs featured in the Audit Reports 2010-11 to 2014-15, the Department/Government accepted audit observations involving ₹357.91 crore of which only ₹0.66 crore (0.18 per cent) was recovered upto 2015-16. The department may take appropriate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

### **1.8 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.

During the year 2015-16, there were 265<sup>5</sup> auditable units, of revenue receipts (Commercial Taxes, State Excise, Transport and Law) out of which 70 units were planned and 66 units had been audited.

## **1.9 Results of audit**

### ***Position of local audit conducted during the year***

Test-check of the records of 66 units of Sales tax/Value Added Tax, State Excise, Motor Vehicles and Stamp Duty and Registration fee conducted during the year 2015-16 brought out under-assessment/short levy/loss of revenue aggregating ₹208.71 crore in 635 cases. During the year, the Departments concerned accepted under-assessment and other deficiencies of ₹75.56 lakh involved in 101 cases of which the departments collected ₹40.74 lakh<sup>6</sup> in 70 cases pertaining to audit findings of previous years as well as of the year 2015-16.

### **1.10 Contents of Part A (Revenue Chapter)**

This Report contains seven paragraphs involving revenue implication of ₹124.10 crore relating to non-imposition of penalty and fine, irregular or inadmissible exemptions, non-issue of recovery certificates, non-recovery of arrears and non/short levy of tax. The Departments/Government have accepted audit observations involving ₹88.76 crore out of which ₹6.52 lakh have been recovered.

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<sup>5</sup> 135 units were shifted from General Sector (Non-PSUs) to Revenue Sector during 2015-16

<sup>6</sup> 2015-16: ₹2.19 lakh (12 cases) and prior to 2015-16: ₹38.55 lakh (58 cases)