

Chapter-1

General

CHAPTER-1: GENERAL

1.1 Introduction

This chapter presents an overview of trend of receipts raised by the Government of Bihar (GoB) and arrears of taxes pending collection against the backdrop of audit findings.

1.2 Trend of receipts

1.2.1 Details of tax and non-tax receipts of GoB for the past five years are depicted in Table - 1.1.

Table - 1.1
Trend of receipts

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
(₹ in crore)						
1.	Revenues raised by the State Government					
	• Tax revenues	16,253.08	19,960.68	20,750.23	25,449.18	23,742.26
	• Non-tax revenues	1,135.27	1,544.83	1,557.98	2,185.64	2,403.11
	Total	17,388.35	21,505.51	22,308.21	27,634.82	26,145.37
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	31,900.39	34,829.11	36,963.07	48,922.68	58,880.59 ¹
	• Grants-in-aid	10,277.92	12,584.03	19,146.26	19,565.60	20,559.02
	Total	42,178.31	47,413.14	56,109.33	68,488.28	79,439.61
3.	Total revenue receipts of the State Government (1 and 2)	59,566.66	68,918.65	78,417.54	96,123.10	1,05,584.98
4.	Percentage of 1 to 3	29	31	28	29	25
5.	Percentage of tax revenue to total revenue receipts	27	29	26	26	22

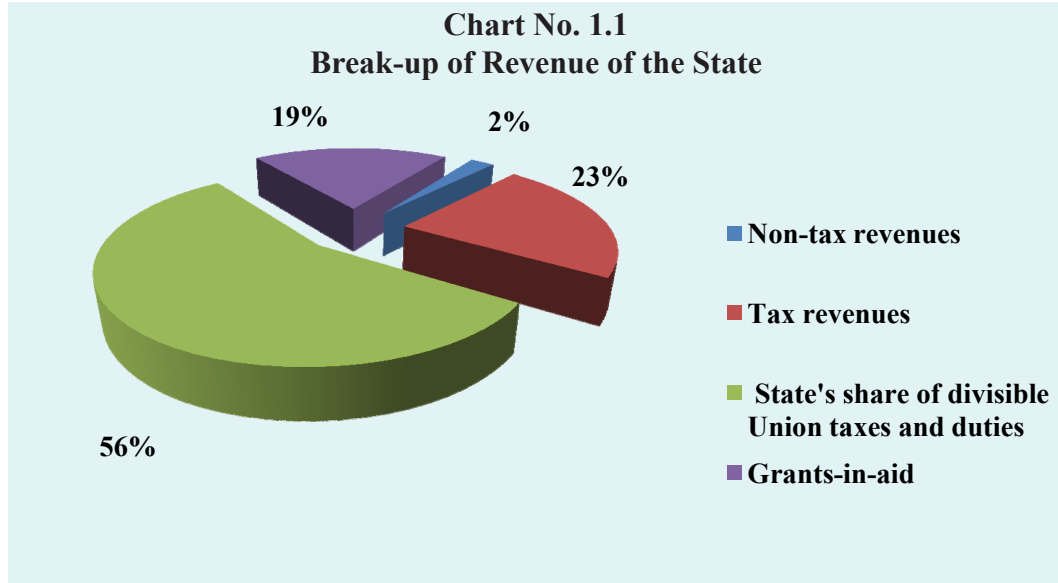
(Source: Finance Accounts, Government of Bihar)

The State's share in central taxes increased by 10 per cent (from 32 to 42 per cent) after the implementation (from 2015-16) of the recommendations of the 14th Finance Commission.

¹ For details, please see Statement No. 14 - Detailed accounts of revenue by minor heads in the Finance Accounts of Government of Bihar for the year 2016-17. Figures under Minor Head – 901 - Share of net proceeds assigned to the State under the Major Heads 0020 - Corporation Tax (₹ 18,889.20 crore), 0021 - Taxes on income other than Corporation Tax (₹ 13,128.06 crore), 0032 - Taxes on Wealth (₹ 43.24 crore), 0037 - Customs (₹ 8,125.40 crore), 0038 - Union Excise Duties (₹ 9,278.51 crore) and 0044 - Service Tax (₹ 9,416.01 crore) and 0045 - Other taxes and duties on commodities and services (₹ 0.17 crore).

The primary reasons for drop in tax revenues in 2016-17 over the previous year and significant drop in the share of tax revenues to total revenues was total prohibition of liquor in Bihar from April 2016 and significant decrease in receipts under stamps and registration fees following demonetisation on 8 November 2016.

Breakup of revenue of the State is given in **Chart 1.1**:



1.2.2 Details of budget estimates (BEs) and tax revenues raised during the period 2012-13 to 2016-17 are given in **Table - 1.2**.

Table - 1.2
Details of Tax Revenues

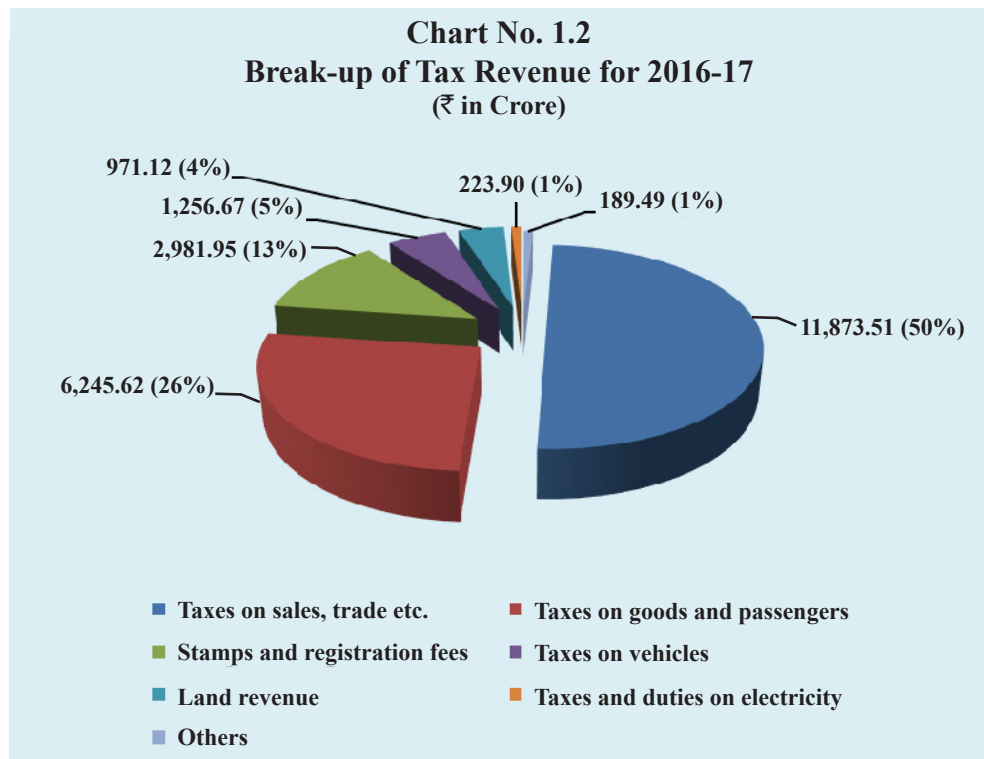
(₹ in crore)

Sl. No.	Head of revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+)/ decrease (-) in actual of 2016-17 in comparison to	
		<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	<u>BE</u> Actual	BE of 2016-17	Actual of 2015-16
1.	Taxes on sales, trade etc.	<u>8,071.00</u> 8,670.79	<u>12,324.04</u> 8,453.02	<u>12,820.15</u> 8,607.16	<u>16,025.18</u> 10,603.40	<u>14,021.33</u> 11,873.51	(-) 15.32	(+) 11.98
2.	Taxes on goods and passengers	<u>2,800.00</u> 1,932.12	<u>1,192.75</u> 4,349.00	<u>4,117.50</u> 4,451.25	<u>5,146.88</u> 6,087.12	<u>7,211.96</u> 6,245.62	(-) 13.40	(+) 2.60
3.	State excise	<u>2,715.00</u> 2,429.82	<u>3,300.00</u> 3,167.72	<u>3,700.00</u> 3,216.58	<u>4,000.00</u> 3,141.75	<u>2,100.00</u> 29.66	(-) 98.59	(-) 99.06
4.	Stamps and registration fees	<u>1,906.00</u> 2,173.02	<u>3,200.00</u> 2,712.41	<u>3,600.00</u> 2,699.49	<u>4,000.00</u> 3,408.57	<u>3,800.00</u> 2,981.95	(-) 21.53	(-) 12.52
5.	Taxes on vehicles	<u>644.40</u> 673.39	<u>800.00</u> 837.48	<u>1,000.00</u> 963.56	<u>1,200.00</u> 1,081.22	<u>1,500.00</u> 1,256.67	(-) 16.22	(+) 16.23
6.	Land revenue	<u>185.00</u> 205.45	<u>205.00</u> 201.71	<u>250.00</u> 277.13	<u>300.00</u> 695.15	<u>330.00</u> 971.12	(+) 194.28	(+) 39.70
7.	Taxes and duties on electricity	<u>60.70</u> 102.55	<u>66.17</u> 141.31	<u>82.70</u> 374.76	<u>102.50</u> 297.99	<u>590.04</u> 223.90	(-) 62.05	(-) 24.86

Sl. No.	Head of revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+)/ decrease (-) in actual of 2016-17 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2016-17	Actual of 2015-16
8.	Other taxes and duties on commodities and services	41.99 28.99	34.14 50.43	48.59 105.34	45.43 69.36	88.90 81.08	(-) 8.80	(+) 16.90
9.	Other taxes on income and expenditure- taxes on professions, trades, callings and employment	31.00 36.95	32.59 47.60	44.00 54.96	55.00 64.55	88.03 78.75	(-) 10.54	(+) 22.00
Total		16,455.09 16,253.08	21,154.69 19,960.68	25,662.94 20,750.23	30,874.99 25,449.11	29,730.26 23,742.26	(-) 20.14	(-) 6.71

{Source: Finance Accounts, Government of Bihar and Revenue and Capital Receipts (Detail)}

Break-up of tax revenues of the State is given in **Chart 1.2**:



In the above connection, Audit observed the following:

Taxes on sales, trade etc.: Audit observed from the Value Added Tax Management Information System (VATMIS) that there was substantial growth of revenue in 2016-17 over 2015-16 ranging from 24.32 per cent to 277.89 per cent (amounting to ₹ 429.39 crore) in dry fruits, auto parts, *namkeen*, battery, sand and electrical goods, which can primarily be attributed to enhancement of tax rates for these items from five per cent in 2015-16 to 13.5 per cent in 2016-17.

Taxes on goods and passengers: Audit observed from VATMIS that there was substantial growth of revenue of 27.54 per cent (amounting to ₹ 205.52 crore) in electrical goods, where the rate of entry tax was enhanced from eight per cent to 12 per cent.

State excise: The decrease (98.59 per cent) over the BE was due to implementation of prohibition policy with effect from April 2016. Audit examination of files of the Administrative and Finance departments revealed that initially BE was fixed at ₹ 2,100.00 crore which was revised to ₹ 46.40 crore by the Finance Department despite request of Administrative Department to fix revised budget estimate as 'nil' in view of prohibition of liquor.

Land revenue: The increase over the actuals of 2015-16 (39.70 per cent) and over the BE for the year 2016-17 (194.28 per cent) was due to realisation of establishment charges from requisitioning authorities for whom land was acquired and cost of alienated government land realised from Electricity Board and other companies during the year.

Audit observed that the Revenue and Land Reforms Department did not consider receipts from alienation of government land and establishment charges from acquisition of land while preparing budget estimates for the years 2015-16 and 2016-17.

Stamps and registration fees: Audit examination of files of the Registration Department revealed that post-demonetisation (8 November 2016) actual receipts decreased by 36.67 per cent (₹ 663.65 crore) over targeted receipts due to decrease in the number of registered documents.

1.2.3 Details of budget estimates and non-tax revenues raised during the period 2012-13 to 2016-17 are indicated in **Table - 1.3**.

Table - 1.3
Details of non-tax revenues

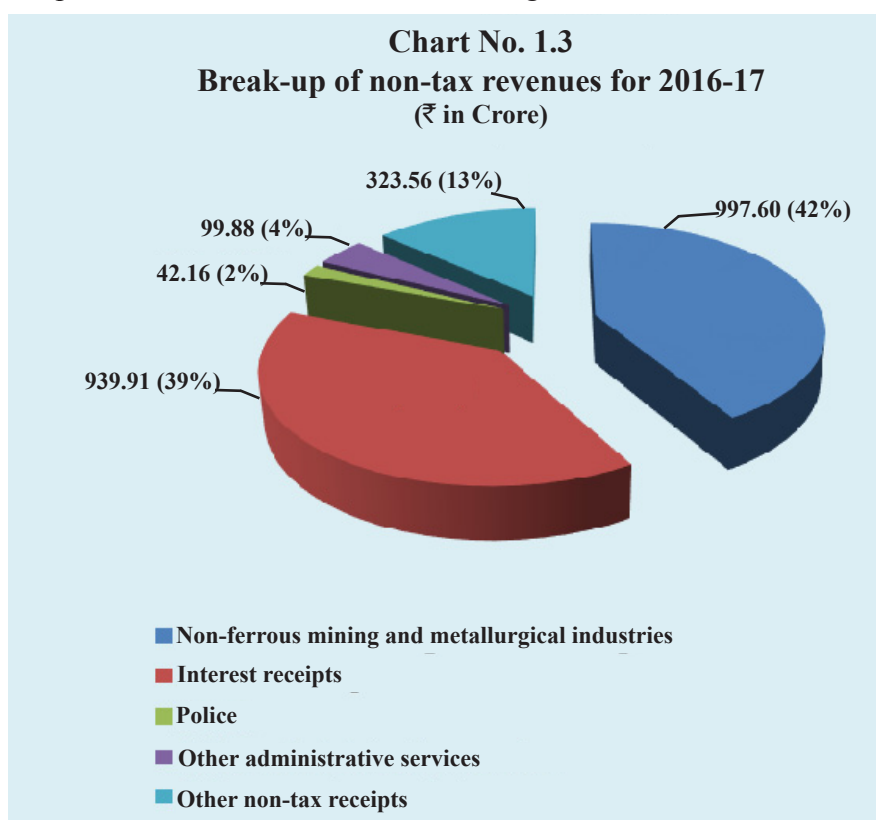
(₹ in crore)

Sl. No.	Head of Revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+)/decrease (-) in actual of 2016-17 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2016-17	Actual of 2015-16
1.	Non-ferrous mining and metallurgical industries	470.00 511.08	641.00 569.14	750.00 879.87	1,000.00 971.34	1,100.00 997.60	(-) 9.31	(+) 2.70
2.	Interest receipts	263.74 167.12	338.48 269.48	202.22 344.77	312.13 583.66	365.78 939.91	(+) 156.96	(+) 61.04
3.	Police	67.83 25.01	70.59 27.27	69.74 29.50	28.93 66.05	31.74 42.16	(+) 32.83	(-) 36.17
4.	Other administrative services	46.56 10.01	65.01 10.18	251.60 21.77	51.25 72.61	23.35 99.88	(+) 327.75	(+) 37.56

Sl. No.	Head of Revenue	2012-13	2013-14	2014-15	2015-16	2016-17	Percentage of increase (+)/decrease (-) in actual of 2016-17 in comparison to	
		BE Actual	BE Actual	BE Actual	BE Actual	BE Actual	BE of 2016-17	Actual of 2015-16
5.	Other non-tax ² receipts	2,268.24 422.05	2,279.76 668.26	1,797.93 282.07	1,988.80 491.98	819.87 323.56	(-) 60.54	(-) 34.23
Total receipts		1,135.27	1,544.83	1,557.98	2,185.64	2,403.11		(+) 9.95

(Source: Actual receipts as per Finance Accounts of the Government of Bihar and the budget estimates as per the Statement of Revenue and Capital Receipts (Detail) of Government of Bihar).

Break-up of non-tax revenues of the State is given in **Chart 1.3**:



Non-ferrous mining and metallurgical industries: Audit observed from the information provided by the Department that due to non-settlement of stone quarries

² Other non-tax receipts includes actual receipts during 2016-17 under the following heads: Road and bridges (₹ 41.93 crore), Medical and public health (₹ 39.94 crore), Other rural development programmes (₹ 35.66 crore), Forestry and wild life (₹ 27.69 crore), Education, sports, arts and culture (₹ 17.09 crore), Public service commission (₹ 16.31 crore), Other economic services (₹ 15.69 crore), Contribution and recoveries towards pension and other retirement benefits (₹ 14.94 crore), Crop husbandry (₹ 14.38 crore), Major irrigation (₹ 13.69 crore), Medium irrigation (₹ 11.65 crore), Labour employment and skill development (₹ 1.41 crore), Jail (₹ 10.35 crore), Fisheries (₹ 10.42 crore), Miscellaneous general service (₹ 6.30 crore), Water supply and sanitation (₹ 3.46 crore), Housing (₹ 2.45 crore), Urban development (₹ 0.71 crore), Information and publicity (₹ 0.29 crore), Social security and welfare (₹ 0.21 crore), Animal husbandry (₹ 0.80 crore), Cooperation (₹ 6.80 crore), Land reforms (₹ 0.18 crore), Minor irrigation (₹ 2.89 crore), Civil aviation (₹ 4.03 crore), Road transport (₹ 0.19 crore), Tourism (₹ 1.57 crore), Village and small industries (₹ 0.04 crore), Industries (₹ 0.09 crore) and Civil supplies (₹ 0.07 crore).

and non-realisation of expected royalty from brick kilns and works divisions, the budget estimates could not be achieved during 2013-14, 2015-16 and 2016-17. The decrease of revenue from brick kilns is discussed in paragraph 6.2.15.3 of this Report.

Interest receipts: The estimates were not based on realistic assessments which is evident from the fact that despite actual receipts of interest of ₹ 583.66 crore during 2015-16, the estimate for 2016-17 was only ₹ 365.78 crore which led to wide variation (156.96 per cent) between budget estimates and actual receipts during 2016-17.

Other administrative services: The wide variation in budget estimates during 2012-17 indicates that the estimates were not based on realistic assessments. Moreover, the receipts on account of election during 2014-15 were received in 2015-16 and 2016-17 leading to variation in actual receipts.

Other non-tax receipts: The wide variation between budget estimates and receipts during 2012-17 was due to non-receipt of pension liabilities from Jharkhand as per the Bihar Reorganisation Act, 2000 though the Government of Bihar was making budget estimates every year.

1.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2017 in respect of the principal heads of revenue amounted to ₹ 6,327.12 crore of which ₹ 801.75 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 2017	Amount outstanding for more than five years as on 31 March 2017	Stages of pendency
1.	Taxes on sales, trade etc.	3,113.62	547.03	Out of ₹ 3,113.62 crore, demands for ₹ 307.77 crore were certified for recovery as arrears of land revenue, recoveries of ₹ 672.95 crore and ₹ 61.55 crore were stayed by the courts and the Government respectively, ₹ 0.80 crore was held up due to assesses/dealers becoming insolvent, ₹ 7.01 crore was likely to be written off and ₹ 2,063.54 crore was pending at other stages.
2.	Taxes on goods and passengers	2,500.38	11.22	Out of ₹ 2,500.38 crore, demand for ₹ 0.62 crore was certified for recovery as arrears of land revenue, recovery of ₹ 2,168.40 crore was stayed by the courts and ₹ 331.36 crore was pending at other stages.
3.	Taxes and duties on electricity	61.91	2.23	Out of ₹ 61.91 crore, recovery of ₹ 20.73 crore was stayed by the courts and ₹ 41.18 crore was pending at other stages.

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2017	Amount outstanding for more than five years as on 31 March 2017	Stages of pendency
4.	Taxes on vehicles	184.88	-	The Transport Department did not provide details of arrears outstanding for more than five years. The total arrears of ₹ 184.88 crore were certified for recovery as arrears of land revenue.
5.	Other taxes and duties on commodities and services	10.10	8.31	Demands for ₹ 8.36 crore were certified for recovery as arrears of land revenue, recovery of ₹ 0.02 crore was stayed by the courts and ₹ 1.72 crore was pending at other stages.
6.	Land revenue	117.73	34.15	₹ 34.15 crore was outstanding for more than five years. The Revenue and Land Reforms Department did not intimate details of stages at which the arrears were pending for collection.
7.	State excise	66.96	23.29	Demands for ₹ 50.90 crore were certified for recovery as arrears of land revenue, recovery of ₹ 4.86 crore and ₹ 0.40 crore was stayed by the courts and the Department respectively, ₹ 2.38 crore was held up due to assesseees/dealers becoming insolvent, ₹ 0.35 crore was likely to be written off and ₹ 8.07 crore was pending at other stages.
8.	Non-ferrous mining and metallurgical industries	271.54	175.52	Total arrears of ₹ 271.54 crore were certified for recovery as arrears of land revenue.
Total		6,327.12	801.75	

(Source: Information from the departments)

The departments intimated pendency at different stages after obtaining information from field units, but individual records relating to outstanding arrears were not produced to audit for examination. It was further observed that the departments failed to monitor the progress of collection of arrears, since they do not have database of outstanding arrears.

Recommendation:

The departments should create a database of outstanding arrears for periodic review and liquidation of arrears.

1.4 Follow up on Audit Reports – summarised position

In terms of the Manual of Instructions (1998) of the Finance Department, departments are required to initiate action on the audit paragraphs contained in the Report of the Comptroller and Auditor General of India (CAG) within two months of their laying in the Legislative Assembly, and Government shall submit explanatory notes thereon for consideration by the Public Accounts Committee (PAC). However, significant delays were observed in submission of explanatory notes (reply of the

departments) itself, with average delays of two months in respect of 204 paragraphs (including performance audits) appearing in the CAG's Revenue Audit reports for the years ended 31 March 2012, 2013, 2014, 2015 and 2016 placed before the State Legislature between January 2013 and March 2017. Details of pending explanatory notes pertaining to various departments³ are given in **Table - 1.5**.

Table - 1.5
Pending explanatory notes

Sl. No.	Audit Report ending on	Date of presentation in the legislature	No. of paragraphs	No. of paragraphs where explanatory notes received	No. of paragraphs where explanatory notes not received
1.	31 March 2012	08.01.2013	38	36	2
2.	31 March 2013	21.02.2014	41	38	3
3.	31 March 2014	24.12.2014	44	30	14
4.	31 March 2015	18.03.2016	39	29	10
5.	31 March 2016	27.03.2017	42	0	42
Total			204	133	71

It was observed that though the departments initiated action for recovery of revenue in the instances pointed out by Audit, corrective measures to prevent persistent irregularities were not addressed by the departments at any level.

The PAC discussed 11 selected paragraphs pertaining to the Audit Reports for the years 2011-12 to 2015-16 and gave 19 recommendations on nine paragraphs including 12 sub-paragraphs relating to Prohibition, Excise and Registration Department and Mines and Geology Department incorporated in the Report (2011-12, 2012-13, 2013-14 and 2014-15) on which no Action Taken Notes (ATNs) has been received from the departments (May 2018).

Recommendation:

The State Government may initiate action to address the shortcomings and system defects pointed out by Audit and to plug the leakage of revenue, and also ensure that all departments promptly prepare ATNs on recommendations of PAC.

1.5 Response of the departments/Government to Audit

On completion of audit of Government departments and offices, Audit issues Inspection Reports (IRs) to the concerned heads of offices, with copies to their superior officers for corrective action and their monitoring. Serious financial irregularities are reported to head of the departments and the Government.

Review of IRs issued during the period 2008-09 to 2016-17 revealed that 20,034 paragraphs relating to 2,426 IRs remained outstanding at the end of June 2017. The potential recoverable revenue in these IRs is as much as ₹ 17,563.67 crore whereas the total revenue collection of the State is ₹ 26,145.37 crore. Details of IRs relating to major revenue earning departments of the State Government are given in **Table - 1.6**.

³ Commercial Taxes (47 paragraphs); Prohibition, Excise and Registration (7 paragraphs); Transport (7 paragraphs); Revenue and Land Reforms (5 paragraphs) and Mines and Geology (5 paragraphs).

Table - 1.6
Department-wise details of Inspection Reports

(₹ in crore)

Sl. No.	Names of Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on sales, trade etc.	377	8,648	10,290.72
		Entry tax			
		Electricity duty			
		Entertainment tax etc.			
2.	Excise and Prohibition	State excise	338	1,549	1,119.99
3.	Revenue and Land Reforms	Land revenue	680	4,147	2,447.46
4.	Transport	Taxes on vehicles	365	2,665	1,390.31
5.	Registration	Stamps and registration fees	329	961	254.29
6.	Mines and Geology	Mining receipts	337	2,064	2,060.90
Total			2,426	20,034	17,563.67

Even the first replies, required to be received from the heads of offices within four weeks of receipt of the IRs, were not received for 1,173 IRs involving potential revenue of as much as ₹ 7,197.52 crore, issued from 2008-09 onwards. Department-wise details are given in **Table - 1.7**.

Table - 1.7
Details of Inspection Reports pending first reply

(₹ in crore)

Sl. No.	Names of Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on sales, trade etc.	116	3,692	3,384.22
		Entry tax			
		Electricity duty			
		Entertainment tax etc.			
2.	Excise and Prohibition	State excise	82	465	224.76
3.	Revenue and Land Reforms	Land revenue	459	2,864	1,747.13
4.	Transport	Taxes on vehicles	251	1,754	851.90
5.	Registration	Stamps and registration fees	108	320	65.85
6.	Mines and Geology	Non-ferrous mining and metallurgical industries	157	1,076	923.66
Total			1,173	10,171	7,197.52

Recommendation:

The State Government may introduce a mechanism to ensure that departmental officers respond to Audit Inspection Reports promptly, take corrective action, and work closely with Audit to bring about the early settlement of audit observations.

1.6 Internal Audit by Finance (Audit) Department

The Finance (Audit) Department, GoB headed by the Chief Controller of Accounts, undertakes internal audit of the state government departments/offices based on requisitions received from the concerned administrative departments and availability of audit teams.

The manpower position of the Finance (Audit) Department (as on 31 March 2018) is given in **Table - 1.8:**

**Table - 1.8
Manpower position in Finance (Audit) Department**

Name of post	Sanctioned strength	Persons in position	Shortfall (in per cent)
Auditor	289	41	248 (85.81)
Senior Auditor-II	144	79	65 (45.14)
Senior Auditor-I	49	41	8 (16.33)
Dy. Controller of Accounts	23	2	21 (91.30)
Controller of Accounts	7	0	7 (100)

Audit further observed that the Finance (Audit) Department audited 52 units of Revenue and Land Reforms Department, six units of Registration Department and one unit of Excise Department out of total 1,186 units⁴ of all major revenue earning departments during 2012-17. The Finance (Audit) Department did not conduct audit of any other major revenue earning departments viz., Commercial Taxes Department, Transport Department and Mines and Geology Department due to acute shortage of manpower in different cadres ranging between 16.33 per cent and 100 per cent as on 31 March 2018.

Recommendation:

The State Government should ensure filling up vacancies in different cadres of the Finance (Audit) Department to ensure effective internal audit.

1.7 Results of audit

Position of the local audit conducted during the year

The Accountant General covered six departments of the State Government and test checked records of 289 out of 1,186 auditable units (24 per cent) relating to commercial taxes, state excise, taxes on vehicles, stamps and registration fees,

⁴ Commercial Taxes Department (63 units), Revenue and Land Reforms Department (839 units), Transport Department (49 units), Excise Department (39 units), Registration Department (140 units) and Mines and Geology Department (56 units).

land revenue and mining receipts during the year 2016-17. Besides, test audit of 10 offices of District Land Acquisition Officers was also undertaken between April and July 2017. In six departments revenue of ₹ 26,420.45 crore was collected during 2015-16, out of which 289 audited units collected ₹ 22,968.93 crore (87 per cent).

Audit observed underassessment/short levy/loss of revenue aggregating to ₹ 4,550.08 crore (20 per cent of revenue collected by audited units) in 3,960 cases. The departments concerned accepted underassessment and other deficiencies of ₹ 1,599.62 crore in 1,080 cases, out of which 557 cases involving ₹ 1,320.17 crore were pointed out during April 2016 to July 2017 and the rest in earlier years. The departments reported (between April 2016 and April 2018) recovery of ₹ 42.20 crore, of which ₹ 29.63 crore pertained to cases pointed out after April 2016 and rest pertained to earlier years.

1.8 Coverage of this Report

This Report contains 35 paragraphs and one audit of “**Mining receipts - levy and collection of royalty, fee and rent**” with financial effect of ₹ 1,835.31 crore.

Most of the audit observations are of a nature that may reflect similar errors/omissions in other units of the State Government departments, but not covered in the test check. The departments/Government may therefore like to internally examine all the other units with a view to ensuring that they are functioning as per requirement and rules.

The departments/Government have accepted (up to April 2018) audit observations amounting to ₹ 1,244.35 crore, of which ₹ 13.78 crore was recovered. The recoveries in the remaining cases have not been intimated (June 2018). The audit observations are discussed in chapters 2 to 6 of this Report.

The concerned departments reported (between April 2016 and April 2018) recovery of ₹ 359.00 crore pertaining to audit findings covered in previous audit reports.

