

CHAPTER-I GENERAL

1.1 Trend of revenue receipts

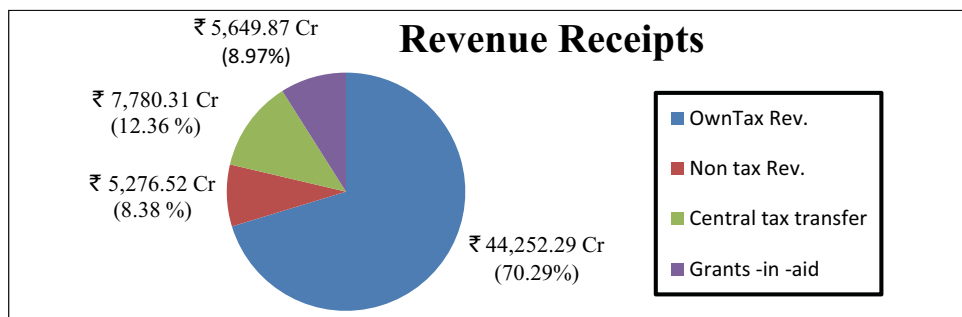
1.1.1 The tax and non-tax revenue raised by the Government of Gujarat during the year 2011-12, the State's share of net proceeds of divisible Union Taxes and duties assigned to the State and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

(₹ in crore)

Sl. no.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1.	Revenue raised by the State Government					
	• Tax revenue	21,885.57	23,557.03	26,740.23	36,338.63	44,252.29
	• Non-tax revenue	4,609.31	5,099.32	5,451.71	4,915.02	5,276.52
	Total	26,494.88	28,656.35	32,191.94	41,253.65	49,528.81
2.	Receipts from the Government of India					
	• Share of net proceeds of divisible Union taxes and duties	5,426.09	5,725.86	5,890.92	6,679.44	7,780.31
	• Grants-in-aid	3,768.88	4,293.50	3,589.50	4,430.55	5,649.87
	Total	9,194.97	10,019.36	9,480.42	11,109.99	13,430.18
3.	Total revenue receipts of the State Government (1 and 2)	35,689.85	38,675.71	41,672.36	52,363.64	62,958.99¹
4.	Percentage of 1 to 3	74	74	77	79	79

The above table indicates that during the year 2011-12, the revenue raised by the State Government (₹ 49,528.81 crore) was 79 per cent of the total revenue receipts which was same as in the preceding year. The balance 21 per cent of the receipts during 2011-12 was from the Government of India.

¹ For details, please see statement No. 11, Detailed Accounts of revenue by minor heads in the Finance Accounts of the Government of Gujarat for the year 2011-12. Figures under the Heads "0020 - Corporation tax, 0021 - Taxes on Income other than corporation tax, 0028 - Other taxes on income and expenditure, 0032 - Taxes on wealth, 0037 - Customs, 0038 - Union excise duties, 0044 - Service tax, 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 from 2007-08 to 2011-12.

(₹ in crore)

Sl. no.	Heads of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+) or decrease (-) in 2011-12 over 2010-11
1.	Sales tax/VAT	13,199.04	15,143.86	15,651.20	20,226.78	27,259.38	(+) 34.77
	Central sales tax	1,905.50	1,666.79	2,548.59	4,666.68	3,942.93	(-) 15.51
2.	Taxes and duties on electricity	2,046.52	2,369.91	2,643.65	3,262.64	3,654.56	(+) 12.01
3.	Stamp duty and registration fees	2,018.43	1,728.50	2,556.72	3,666.24	4,670.27	(+) 27.39
4.	Land revenue	683.09	543.50	1,161.20	1,788.78	1,477.18	(-) 17.42
5.	Taxes on vehicles	1,310.09	1,381.66	1,542.64	2,003.68	2,251.03	(+) 12.34
6.	Taxes on goods and passengers	151.62	169.35	6.91	6.38	208.34	(+) 3,165.52
7.	State excise	47.20	48.71	65.94	62.97	72.11	(+) 14.51
8.	Other taxes on income and expenditure	149.67	185.84	196.87	228.22	222.18	(-) 2.65
9.	Other taxes	374.41	318.91	366.51	426.26	494.31	(+) 15.96
	Total	21,885.57	23,557.03	26,740.23	36,338.63	44,252.29	(+) 21.77

The reason for substantial increase in taxes on goods and passenger tax during 2011-12 over the previous year 2010-11 was due to increase in collection of passenger tax.

The increase in collection of goods and passenger tax during 2011-12 over previous year was the highest (3,165.52 per cent). It was stated to be due to the increased collection of passenger tax.

The reasons for substantial variations related to other receipts, though called for in May 2012, were not reported (September 2012) by the concerned Departments.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2007-08 to 2011-12:

(₹ in crore)							
Sl. no.	Heads of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+) or decrease (-) in 2011-12 over 2010-11
1.	Non-ferrous mining and metallurgical industries	2,082.14	1,559.82	2,138.98	2,019.31	1,819.64	(-) 9.89
2.	Interest receipts	329.88	567.81	419.44	403.88	631.89	(+) 56.45
3.	Major and medium irrigation	452.82	455.77	504.61	618.14	684.15	(+) 10.68
4.	Miscellaneous general services	588.53	643.29	847.14	62.29	69.65	(+) 11.82
5.	Other administrative services	47.93	189.44	110.80	41.11	70.27	(+) 70.93
6.	Police	86.24	77.44	101.45	149.08	138.97	(-) 6.78
7.	Medical and public health	66.25	126.50	62.40	118.11	90.76	(-) 23.16
8.	Public works	27.19	31.69	51.06	36.71	38.07	(+) 3.70
9.	Forestry and wild life	35.08	40.51	39.76	45.22	39.93	(-) 11.70
10.	Other non-tax receipts	893.25	1,407.05	1,176.07	1,421.17	1,693.19	(+) 19.14
Total		4,609.31	5,099.32	5,451.71	4,915.02	5,276.52	(+) 7.36

The concerned Departments did not inform (September 2012) the reasons for variations, despite being requested (May 2012).

1.2 Response of the Departments/Government towards audit

In the following paragraphs from 1.2.1 to 1.2.6, response of the Departments/Government towards various aspects related to audit process has been discussed.

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

Principal Accountant General (Economic and Revenue Sector Audit) Gujarat, Ahmedabad (PAG), 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 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 offices/ Government are required to comply promptly on the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of receipt of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

Inspection Reports issued upto December 2011 disclosed that 14,423 paragraphs involving ₹ 8,814.69 crore relating to 4,519 IRs remained outstanding at the end of June 2012 as mentioned below along with the corresponding figures for the preceding two years.

Particulars	June 2010	June 2011	June 2012
Number of outstanding inspection reports	4,374	4,535	4,519
Number of outstanding audit observations	12,998	14,100	14,423
Amount of revenue involved (₹ in crore)	7,290.79	8,718.32	8,814.69

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 and the amounts involved are mentioned below:

Sl. no.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)
1	Finance	Taxes/VAT on sales, trade etc.	1,531	6,114	3,078.07
		Professional Tax	16	27	0.05
2	Home	State excise	13	17	0.23
3	Revenue	Land revenue	374	849	369.31
4	Ports and Transport	Taxes on motor vehicles	410	1,654	1,091.74
5	Revenue	Stamp duty and registration fees	1,144	3,539	1,416.39
		Valuation of property	196	428	53.53

6	Industries and Mines	Geology and Mining	265	788	449.64
		Director of Petroleum	4	30	2,022.51
7	Energy and Petrochemicals	Electricity duty	54	85	148.10
8	Forest and environment	Forestry and wild life	-	-	-
9	Information and Broadcasting	Entertainments tax, luxury tax, etc.	512	892	185.12
Total			4,519	14,423	8,814.69

Even the first replies required to be received from the heads of office within one month from the date of receipt of the IRs were not received (June 2012) for 92 IRs issued up to December 2011. 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.

We recommend that the Government may take suitable steps to implement an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who failed to send replies to the IRs/paragraphs as per the prescribed time schedules and also failed to take action to recover outstanding demand in a time bound manner.

1.2.2 Departmental audit committee meetings

The Government set up Audit Committees 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 2011-12 and the paragraphs settled are mentioned below:

Sl. no.	Name of the Department/Head of Revenue	No. of meetings held	No. of IRs/paragraphs settled		Amount settled
			IRs	Paragraphs	
1.	Finance (Sales tax/VAT)	02	-	61	12.05
2.	Ports and Transport (Motor vehicles tax)	-	-	-	-
3.	Land Revenue	04	65	165	29.45
4	Geology and Mining	-	-	-	-
5	Stamp duty	01	-	-	-
6	Forest and Environment	-	-	-	-
7.	Information & Broad casting (Entertainment tax, Luxury tax)	02	28	95	2.61

(₹ in crore)

It could be seen from the above paragraph that though the money value involved in the amount of the outstanding observations had increased from ₹ 8,718.32 crore to ₹ 8,814.69 crore i.e. increase of 1.11 *per cent*, only nine meetings were held during the year.

Considering the large pendency of IRs and audit paragraphs, the Departments need to hold more Audit Committee meetings to clear the outstanding paragraphs.

1.2.3 Response of the Departments to the draft audit paragraphs

According to the hand book of instructions for speedy settlement of draft paragraphs issued by the Finance Department on 12 March 1992, results of verification of facts contained in the draft paragraphs are required to be communicated to the Principal Accountant General (PAG) within six weeks from the date of their receipt. In exceptional cases where it is not possible to furnish the final reply to the draft paragraph within the above time limit, an interim reply should be given to the PAG.

Eighty one draft paragraphs (clubbed into 72 paragraphs) and one Performance Audit proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2012 (Revenue Receipts) Government of Gujarat were forwarded to the Secretaries of the respective Departments between May and October 2012 through demi-official letters. The Secretaries of the respective Departments replied to 64 draft paragraphs. Out of 64 paragraphs 30 draft paragraphs were replied partially. The paragraphs of the Performance Audit have been included in this report after incorporating the response of the Secretaries of the concerned Departments, wherever received.

1.2.4 Follow up on Audit Reports - summarised position

As per instructions issued by the Finance Department on 12 March 1992, administrative Departments are required to submit explanatory notes on paragraphs and reviews included in the Audit Reports (AR) within three months of presentation of the ARs to the Legislature, without waiting for any notice or call from the Public Accounts Committee, duly indicating the action taken or proposed to be taken.

The AR for the years 2009-10 and 2010-11 were placed to the State Legislature on 30 March 2012. Explanatory notes in respect of paragraphs included in ARs 2009-10 and 2010-11 were not yet furnished by the Departments as mentioned below (September 2012).

Name of the Department	2009-10 (Paragraphs)	2009-10 (Sub paragraphs-Reviews)	2010-11 (Paragraphs)	2010-11 (Sub paragraphs-Reviews)	Total
Finance (Sales tax/VAT)	1	--	6	18	25
Revenue (Stamp duty)	8	--	-	29	37
(Land revenue)	1	16	4	--	21
Ports and Transport (Motor vehicles tax)	8	--	7	9	24
Information and Broadcasting (Entertainments tax)	1	--	4	--	5
(Luxury tax)	--	--	1	--	1
Industries and Mines (Mining receipts)	7	--	8	--	15
Energy and Petrochemicals (Non-tax receipts)	--	--	1	--	1
(Interest receipts)	--	7	--	--	7
(Electricity Duty)	1	--	--	13	14
Total	27	23	31	69	150

Thus, out of 41 paragraphs (excluding two Performance Audits) and 46 paragraphs (excluding four Performance Audits) included in the Audit Reports 2009-10 and 2010-11, explanatory notes were received only in 29 paragraphs and no explanatory note was received for the remaining 58 paragraphs.

1.2.5 Compliance with the earlier Audit Reports

During the years between 2006-07 and 2010-11, the Departments/Government accepted audit observations involving ₹ 309.14 crore of which an amount of ₹ 43.39 crore had been recovered till 31 March 2012 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made*
2006-07	94.53	23.84	5.67
2007-08	304.96	86.28	10.60
2008-09	5,743.47	46.98	4.48
2009-10	352.04	63.08	9.57
2010-11	462.98	88.96	13.07
Total	6,957.98	309.14	43.39

* Amount recovered as shown above includes recovery effected by Finance, Port and Transport, Revenue, Information and Broadcasting, Industries and Mines, and Energy and Petrochemicals Departments. Despite repeated reminders and pursuance at all levels, recovery of Electricity Duty effected by Energy and Petrochemicals Department had not been received (September 2012).

The recovery in respect of the accepted cases was meagre (14 per cent of the accepted money value).

We recommend the Government to advise the concerned Departments to take necessary steps for speedy recovery at least in those cases/ paragraphs which have been accepted by the concerned Departments in the interest of revenue.

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 Ports and Transport Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the Ports and Transport Department to deal 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 2007-08 to 2011-12.

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 31 March 2012 are tabulated below.

(₹ in crore)

Year	Opening balance			Addition during the year			Clearance during the year			Closing balance at the end of the year		
	IRs	Para- graphs ²	Money value	IRs	Para- graphs	Money value	IRs	Para- graphs	Money value	IRs	Para- graphs	Money value
2007-08	303	1088	486.61	28	288	51.53	0	3	0.043	331	1373	538.10
2008-09	331	1373	538.10	19	135	256.52	2	6	0.01	348	1502	794.61
2009-10	348	1502	794.61	26	174	263.34	0	74	146.20	374	1602	911.75
2010-11	374	1602	911.75	22	152	262.30	3	176	94.01	393	1578	1,080.04
2011-12	393	1578	1,080.04	21	137	15.98	0	45	3.55	414	1670	1,092.47

There was continuous increase in the number (except in 2010-11) and money value of the objections as at the end of the year from 2007-08 to 2011-12. This indicates failure of the Department to take timely action on the audit objections. During five years period from 2007-08 to 2011-12, Ports and Transport Department conducted two Audit Committee Meetings in which 248 paragraphs and three IRs involving money value of ₹ 240.20 crore were settled.

² Those observations which were not included in Audit Reports.

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 in the following table:

Year of AR	Number of paragraphs included	Money value of the paragraphs (₹ in crore)	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year 2011-12 (₹ in crore)	Cumulative position of recovery of accepted cases (₹ in crore)
2006-07	2	9.10	8.95	0.0	1.33
2007-08	1	83.08	36.56	0.0	7.37
2008-09	4	6.29	6.29	0.0	1.39
2009-10	8	221.36	19.29	0.0	1.51
2010-11	7	49.77	25.66	0.0	1.05
Total	22	369.60	96.75	0.0	12.65

Out of observations of ₹ 96.75 crore accepted, the Department recovered an amount of ₹ 12.65 crore during the period of five years which was very low (13.07 per cent of the accepted amount of observations).

We recommend the Department to consider taking effective steps to recover at least the amount of the accepted paragraphs in accordance with the provision of Motor Vehicles Act/Rules of Ports and Transport Department.

1.3.2.2 Action taken on the recommendations

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

We conducted three Performance Audits during the last five years as mentioned below:

We had proposed 15 recommendations for improving the efficiency, efficacy and internal controls of the Department. Response to the recommendations has not been received.

Year of AR	Name of the review	Number of recommendations
2007-08	Administration of Motor Vehicles Tax in Gujarat	7
2008-09	Computerisation of issue of Driving Licence and Registration of Vehicle (An Information Technology Audit)	3
2010-11	Performance Audit on Computerisation in Motor Vehicle Department	5

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 past five years etc.

During the year 2011-12, the audit universe comprised 965 auditable units, of which 273 units were planned and 271 units audited during the year, which is 28.08 *per cent* of the total auditable units. The remaining two units belong to Commercial Tax Department. No assessment was done during this period, therefore no audit was taken up.

Besides the compliance audit mentioned above, one performance audit was 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

Test check of the records of 271 units of commercial tax, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity duty, other tax receipts and other non-tax receipts conducted during the year 2011-12 revealed under assessment/short levy/loss of revenue amounting to ₹ 596.11 crore in 1,744 cases. During the course of the year, the concerned Departments accepted under assessments and other irregularities of ₹ 52.20 crore in 397 cases of which 36 cases involving ₹ 5.83 crore were pointed out in audit during the year 2011-12 and the rest in the earlier years. Department collected ₹ 6.71 crore in 249 cases in 2011-12.

1.5.2 This Report

This report contains 73 paragraphs, including one performance audit on “Management of Government Lands” relating to short/non-levy of occupancy/premium price/NNA/conversion tax, non/short levy of VAT, royalty, dead rent, stamp duty and other irregularities involving financial effect of ₹ 348.22 crore. The Departments/Government have accepted audit observations involving ₹ 40.81 crore out of which ₹ 3.77 crore has been recovered. The replies in the remaining cases had not been received (September 2012). These are discussed in succeeding Chapters II to VI.

CHAPTER-II

EXECUTIVE SUMMARY

Trend of receipts The contribution of GVAT in total tax receipts was 70.51 *per cent* in 2011-12, the collection increased by 25.34 *per cent* over the previous year.

Revenue Impact of Audit Reports During the last five years, through the Audit Reports we have pointed out cases of non/short levy, non/short realisation, underassessment/loss of revenue, incorrect exemption, concealment/suppression of turnover, application of incorrect rate of tax, incorrect computation etc, with revenue implication of ₹ 5,287.48 crore in 78 paragraphs. Of these, the Department/Government had accepted audit observations in 68 paragraphs involving ₹ 143.28 crore and had recovered ₹ 10.50 crore.

Results of Audit We test checked the records of 95 units relating to Commercial Tax Offices during 2011-12 and noticed underassessment of tax and other irregularities involving ₹ 270.95 crore in 932 cases.

During the course of the year, the Department accepted underassessment and other irregularities of ₹ 23.49 crore in 154 cases, of which 15 cases involving revenue implication of ₹ 6.44 lakh were pointed out in audit during the year 2011-12 and the rest in earlier years. An amount of ₹ 72.33 lakh was realised in 56 cases during the year 2011-12.

What we have highlighted in this Chapter

- Irregular allowance of deductions towards labour charges from taxable turnover in 15 offices from 40 dealers resulted in short realisation of revenue of ₹ 1.66 crore.
- In seven offices, the assessing authorities applied incorrect rate of tax in 12 assessments under Section 14-A resulting in short levy of tax of ₹ 100.42 lakh including interest.
- In 19 offices, the dealer claimed excess/inadmissible deductions of labour, service charges in 23 assessments resulting in short levy/payment of tax of ₹ 4.01 crore including interest.

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- Incorrect exhibition of turnover and irregular deduction led to escapement of taxable turnover in 20 assessments in 12 offices, subsequently resulting in short levy of VAT of ₹ 4.72 crore including interest.
 - We noticed incorrect/excess grant of ITC of ₹ 26.42 crore in 145 assessments in 53 offices.
 - In 15 offices, incorrect credit of ITC on opening stock in 28 assessments resulted in incorrect grant of ITC of ₹ 2.75 crore.
 - In 12 offices, the assessing authority applied incorrect rate of tax in 20 assessments resulting in short levy of VAT of ₹ 3.41 crore including interest and penalty.
 - In 15 offices, the assessing officers did not include the amount of valuable consideration forming part of sale turnover in 19 assessments. This resulted in short realisation of VAT of ₹ 2.84 crore including interest and penalty.
 - In four offices, misclassification of goods resulted in short levy of tax of ₹ 2.42 crore in five assessments including interest and penalty.
 - In two offices, the assessing officers did not include sale consideration received as hiring charges in three assessments. This resulted in short levy of tax of ₹ 51.30 lakh including interest and penalty.
 - In nine offices, the assessing officers applied incorrect rate of CST resulting in short levy of tax of ₹ 63.35 lakh including interest and penalty.
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