

## CHAPTER-I: GENERAL

### 1.1 Trend of revenue

1.1.1 Tax and non-tax revenue raised by Government of Odisha during 2012-13, State's share of net proceeds of divisible Union taxes and duties assigned to the State, grants-in-aid received from Government of India (GoI) during the year and corresponding figures for preceding four years are mentioned in the table below:

		(₹ in crore)				
		2008-09	2009-10	2010-11	2011-12	2012-13
<b>1.</b>	<b>Revenue raised by State Government</b>					
	• Tax revenue	7,995.20	8,982.34	11,192.67	13,442.74	15,034.13
	• Non-tax revenue	3,176.15	3,212.20	4,780.37	6,442.96	8,078.04
	<b>Total</b>	<b>11,171.35</b>	<b>12,194.54</b>	<b>15,973.04</b>	<b>19,885.70</b>	<b>23,112.17</b>
<b>2.</b>	<b>Receipts from Government of India</b>					
	• State's share of net proceeds of divisible Union taxes and duties	8,279.96	8,518.65	10,496.86	12,229.12	13,965.01 <sup>1</sup>
	• Grants-in-aid	5,158.70	5,717.02	6,806.25	8,152.20	6,859.73
	<b>Total</b>	<b>13,438.66</b>	<b>14,235.67</b>	<b>17,303.11</b>	<b>20,381.32</b>	<b>20,824.74</b>
<b>3.</b>	Total revenue receipts of State Government (1+2)	24,610.01	26,430.21	33,276.15	40,267.02	43,936.91
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>45.39</b>	<b>46.14</b>	<b>48.00</b>	<b>49.38</b>	<b>52.60</b>

Source – Finance Accounts for the year 2012-13 of Government of Odisha

During 2012-13, revenue raised by State Government (₹ 23,112.17 crore) was 52.60 per cent of total revenue receipts against 49.38 per cent in the preceding year. The balance (₹ 20,824.74 crore) 47.40 per cent of receipts during 2012-13 was from the GoI. Increase of 3.22 per cent in revenue raised by State Government in 2012-13 cited above was partially attributable to 15.85 per cent reduction in Grants-in-aid from GoI.

1 For details, please see Statement No. 11- Detailed accounts of revenue by minor heads in the Finance Accounts of the Government of Odisha for the year 2012-13. Figures under the minor head 901-Share of net proceeds assigned to the States under the major 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 and 0045 - Other taxes and duties on commodities and services booked in the Finance Accounts under A-Tax revenue have been excluded from the revenue raised by the State and exhibited as State's share of divisible Union taxes.

1.1.2 The following table presents details of tax revenue raised during 2008-09 to 2012-13:

(₹ in crore)

Sl. No.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/ decrease (-) in 2012-13 over 2011-12
1.	OVAT including Orissa Sales Tax (OST)	4,268.72	4,914.99	6,221.28	7,463.39	8,929.61	(+) 19.65
	Central Sales Tax (CST)	534.61	493.77	585.52	733.45	755.07	(+) 2.95
2.	Taxes and Duties on Electricity	365.03	459.96	458.06	551.65	590.48	(+) 7.04
3.	Land Revenue	348.79	292.18	390.66	521.47	420.21	(-) 19.42
4.	Taxes on Vehicles	524.43	611.23	727.58	787.99	746.19	(-) 5.30
5.	Taxes on Goods and Passengers	638.32	815.25	1,111.37	1,312.36	1,342.54	(+) 2.30
6.	State Excise	660.07	849.05	1,094.26	1,379.00	1,498.64	(+) 8.68
7.	Stamp Duty and Registration Fee	495.66	359.96	415.82	498.14	544.88	(+) 9.38
8.	Other Taxes and Duties on Commodities and Services	47.39	50.40	54.84	68.39	70.52	(+) 3.11
9.	Other Taxes on Income and Expenditure-Tax on Professions, Trades, Callings and Employments	112.18	135.55	133.28	126.90	135.99	(+) 7.16
<b>Total</b>		<b>7,995.20</b>	<b>8,982.34</b>	<b>11,192.67</b>	<b>13,442.74</b>	<b>15,034.13</b>	

Source – Finance Accounts for the year 2012-13 of Government of Odisha

Reasons for variations as reported by concerned Departments were as follows:

**Odisha VAT (OVAT) including OST/ CST:** Increase (CST 2.95 per cent and OVAT 19.65 per cent) was due to increase in business activities of industry sector and vigorous collection drive by Department.

However, 99.53 per cent of total revenue for 2012-13 towards OVAT/ST/CST was collected at pre-assessment stage and only 0.47 per cent was attributable to assessments by the Department.

**Taxes on Vehicles:** Decrease (5.30 per cent) was due to decline in trend of registration of new vehicles caused by recession, increase in number of vehicles issued NOC to operate/pay tax in other States and increase in number of vehicles that remained off-road.

**Stamp Duty and Registration Fees:** Increase (9.38 per cent) was due to revision of bench mark value, disposal of pending undervaluation (UV) cases by way of one time settlement (OTS) and efforts of IGR, Odisha as well as field functionaries for collection of arrears.

Other Departments did not furnish (December 2013) reasons for variation despite being requested (April 2013) and reminded (July 2013).

**1.1.3** Non-tax revenue raised during 2008-09 to 2012-13 is detailed in the following table:

							(₹ in crore)
Sl. No.	Heads of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/ decrease (-) in 2012-13 over 2011-12
1	Non-ferrous mining and metallurgical industries	1,380.60	2,020.76	3,329.25	4,571.57	5,695.70	(+) 24.59
2	Interest receipts	654.67	379.23	260.84	576.38	588.25	(+) 2.06
3	Forestry and wild life	139.29	109.03	157.68	192.39	188.92	(-) 1.80
4	Irrigation & inland water transport	52.95	70.13	143.09	333.11	396.76	(+) 19.11
5	Other administrative services	9.38	56.48	11.06	16.07	12.76	(-) 20.60
6	Public works	38.31	41.99	48.79	47.16	49.77	(+) 5.53
7	Police receipts	22.25	36.69	38.45	36.18	52.62	(+) 45.44
8	Education	10.65	14.88	25.98	21.18	89.10	(+) 320.68
9	Medical and public health	32.18	12.96	19.55	37.12	10.55	(-) 71.58
10	Miscellaneous general services	388.85	11.60	412.29	86.86	225.60	(+) 159.73
11	Power	0.63	2.66	2.07	3.37	2.14	(-) 36.50
12	Co-operation	2.01	1.99	2.18	1.92	2.97	(+) 54.69
13	Other non-tax receipts	444.38	453.80	329.14	519.65	762.90	(+) 46.81
<b>Total</b>		<b>3,176.15</b>	<b>3,212.20</b>	<b>4,780.37</b>	<b>6,442.96</b>	<b>8,078.04</b>	

Source: Finance Accounts for the year 2012-13 of Government of Odisha

Reasons for variation as reported by respective Departments were as follows:

**Non-ferrous mining and metallurgical industries:** Increase (24.59 per cent) was due to enhancement of rate of the royalty on iron ore and chromite etc.

**Forestry and Wildlife:** Decrease (1.80 per cent) was stated to be due to less realisation of royalty on Kendu leaf from Odisha Forest Development Corporation Ltd (OFDC Ltd.) during the year 2012-13 as compared to year 2011-12.

Other Departments did not furnish (December 2013) reasons for variation, despite being requested (April 2013) and reminded (July 2013).

## 1.2 Response of Departments/Government towards audit

Audit observations on incorrect assessments, non/short-levy of taxes, duties, fees etc. not settled on the spot are communicated to Heads of the Offices (HoOs)/Departments (HoDs) through Inspection Reports (IRs). Departments

are required to take corrective measures and furnish compliance within one month. On the basis of the compliance, paragraphs are settled by the Principal Accountant General (E&RSA), Odisha (PAG). Pending paragraphs are discussed in Departmental Audit Committee (DAC) meetings to expedite settlement of the same. Important paragraphs of IRs, Performance Audit (PA) Reports are included in the Report of Comptroller and Auditor General of India (CAG) which is presented in the State Legislature and discussed in the Public Accounts Committee (PAC). Before such inclusion, paragraphs are forwarded to Government seeking their views which are required to be furnished within six weeks. After the Report of CAG (Audit Report) is placed in the Legislature, Departments are required to furnish compliance notes within three months. The PAC, on receipt of compliance notes, discusses the paragraphs and makes recommendations if required. Action Taken Notes (ATNs) on recommendations of the PAC are required to be furnished by Departments within six months. Issues raised in Audit Report are finally settled after the PAC discusses ATNs submitted by Departments.

Response of Departments/Government to audit at different stages of action are discussed in succeeding paragraphs 1.2.1 to 1.2.6.

### **1.2.1 Inadequate corrective action on audit observations**

The PAG conducts periodical inspection of Departments of Government to test check transactions and verify maintenance of important accounts and other records as prescribed in the Act, Rules and procedures thereunder. These inspections are followed up through IRs incorporating irregularities detected during inspection and not settled on spot. IRs are issued to Head of the Offices (HoOs) inspected with copies to next higher authorities for prompt corrective action. HoOs/ Head of the Departments (HoDs)/ Government are required to comply with the observations contained in IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from date of issue of IRs. Serious financial irregularities are reported to HoDs and Government.

Audit reviewed position of IRs issued up to December 2012 and noticed that 7884 paragraphs involving ₹ 5,442.03 crore relating to 2376 IRs were outstanding at the end of June 2013. Out of these, 3952 paragraphs involving ₹ 1172.91 crore relating to 1180 IRs are more than five years old and 3377 paragraphs involving ₹3,893.44 crore relating to 1037 IRs are one to five years old and balance 555 paragraphs involving ₹ 376.68 crore relating to 159 IRs pertained to current year. Corresponding figures for preceding two years are also given below.

	<b>June 2011</b>	<b>June 2012</b>	<b>June 2013</b>
Number of outstanding IRs	3,267	3,597	2,376
Number of outstanding audit observations	9,712	10,270	7,884
Amount involved ( <b>₹ in crore</b> )	6,258.05	7,454.18	5,442.03

**Source: As per data maintained in office of the Principal Accountant General**

Department-wise details of IRs and audit observations outstanding as on 30 June 2013 and amounts involved are mentioned in the following table:

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved (₹ in crore)	Number of IRs against which first reply was not received
1.	Finance	OVAT including OST/CST/ET/Exp.	739	1799	870.30	44
		Entry tax	245	430	125.91	
		Profession Tax	8	11	16.95	
2.	Excise	State excise	257	591	244.95	45
3.	Revenue & Disaster Management	Stamp duty and registration fee	517	850	408.02	123
4.	Steel and Mines	Mining receipts	154	418	3073.12	5
5.	Transport	Taxes on vehicles and taxes on goods and passengers	423	3570	690.14	33
		OSRTC	29	202	11.84	
		Government press	4	13	0.81	
<b>Total :</b>			<b>2,376</b>	<b>7,884</b>	<b>5,442.03</b>	<b>250</b>

Source: As per data maintained in office of the Principal Accountant General

Even the first replies required to be received from HoOs within one month from the date of issue of IRs were not received for 250 IRs issued up to December 2012. This large pendency of IRs due to non-receipt of replies indicates that HoOs/HoDs are yet to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in IRs.

**Audit recommends that Government may take suitable steps to put in place an effective procedure for prompt and appropriate response to audit observations and send necessary replies to IRs/paragraphs as per the prescribed time schedules so that appropriate action is taken to prevent loss of revenue and to recover outstanding demands in a time bound manner.**

### 1.2.2 Departmental Audit Committee (DAC) meetings

Government set up DACs to monitor and expedite the progress of settlement of IRs and paragraphs in IRs.

In order to achieve above objective, it is necessary that DACs meet regularly and ensure that final action is taken in respect of all audit observations outstanding for more than a year, leading to their settlement. During 2012-13, 18 meetings were held by DAC of three Departments in which 7 IRs and 159 paragraphs involving ₹ 1.09 crore were settled. No DAC meeting was held during 2012-13 by Steel & Mines and Revenue & Disaster Management Department.

**Audit recommends that Government may suitably instruct concerned Departments to conduct more DAC meetings and to take rectificatory action on all audit observations, particularly those which are pending since long.**

### **1.2.3 Non-production of records to Audit for scrutiny**

Programme of local audit of offices is drawn up based on risk analysis covering revenue earning units and Departments are intimated sufficiently in advance to enable them to keep the relevant records ready for audit scrutiny.

During 2012-13, tax assessment records numbering 1,219 under OVAT including OST/CST/Entry Tax relating to 47 Commercial Tax Offices<sup>2</sup> were not made available to Audit. Of these, 575 assessments relate to 2012-13 and remaining 644 cases relate to earlier years.

### **1.2.4 Response of Departments to Draft Audit Paragraphs**

The Government of Odisha in Finance Department have instructed from time to time the Administrative Departments to submit compliance to Draft Audit Paragraphs (DPs) proposed by the PAG for inclusion in Audit Report, within six weeks from the date of receipt of such DPs. DPs are forwarded by the PAG to Principal Secretary/Secretary of the Administrative Department concerned through demi-official letters seeking confirmation of factual position and comments thereon within stipulated period of six weeks.

Audit forwarded 78 DPs (clubbed into 62 paragraphs including one PA) proposed for inclusion in this Report, to Secretaries/Principal Secretaries of respective Departments between April 2013 and December 2013 through demi-official letters with a request for verification of factual position and comments thereon. Demi-official reminders were also issued after expiry of six weeks time in each case. The Secretaries/ Principal Secretaries of Departments did not send replies to 44 DPs. Therefore, these paragraphs have been proposed for inclusion in report without response of the Departments concerned.

### **1.2.5 Follow up on Audit Reports**

Finance Department instructions also envisage that explanatory memoranda in respect of paragraphs included in Audit Reports should be furnished to the Odisha Legislative Assembly (OLA) within three months from the date of placing of Report before the OLA.

A review of outstanding explanatory memoranda on paragraphs included in the Audit Reports (Revenue Sector) as of December 2013 disclosed that against 819 paragraphs covered in Audit Reports (Revenue Receipts/Sector) for the years 1993-94 to 2011-12, paragraphs numbering 184 were discussed in the PAC. Of remaining<sup>3</sup>, 499 paragraphs pertain to Revenue Sector. Departments had not submitted explanatory memoranda in respect of 56

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<sup>2</sup> **Ranges** : Angul, Balasore, Bhubaneswar, Bolangir, Cuttack I, Cuttack II, Jajpur, Koraput, Puri, Sambalpur and Sundargarh.

**Circles**: Angul, Balasore, Barbil, Bargarh, Bhadrak, Bhanjanagar, Bolangir, Boudh, Bhubaneswar I, Bhubaneswar II, Bhubaneswar III, Bhubaneswar IV, Cuttack I (Central), Cuttack I (City), Cuttack I (East), Cuttack I (West), Cuttack II, Dhenkanal, Ganjam I, Ganjam II, Jagatsinghpur, Jajpur, Jatni, Jharsuguda, Kalahandi, Kantabanji, Keonjhar, Koraput, Mayurbhanj, Nayagarh, Puri, Rayagada, Rourkela I, Rourkela II, Sambalpur I and Sambalpur II.

<sup>3</sup> One hundred and thirty six paragraphs have been transferred to General Sector, Economic Sector-I and Economic Sector-II.

paragraphs of Audit Reports (Revenue Receipts/Sector) for the years 2010-11 to 2011-12.

With a view to ensure accountability of executive in respect of issues dealt with in Audit Reports, the PAC has directed that the Department concerned should furnish ATNs on recommendations of PAC relating to paragraphs contained in Audit Reports within prescribed time frame. Audit noticed from the PAC Reports submitted during the 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup>, 13<sup>th</sup> and 14<sup>th</sup> Assembly that 31 Reports containing 428 paragraphs/ recommendations were presented by the PAC before the Legislature between February 1991 and December 2012 after examination of Audit Reports (Revenue Receipts) relating to five Departments for years 1985-86 to 2006-07. However, ATNs have not been received in respect of 16 recommendations of the PAC from three Departments<sup>4</sup> as of December 2013.

This indicates that executive is yet to take adequate prompt action on important issues highlighted in the Audit Reports/ PAC Reports that involve unrealised revenue.

### 1.2.6 Compliance to earlier Audit Reports – Position of recovery of accepted cases

In Audit Reports for 2007-08 to 2011-12, audit observations relating to under assessments, non/short-levy of taxes, loss of revenue, failure to raise demands, etc. involving ₹ 3,382.28 crore were included. Of these, as of June 2013, Departments concerned accepted under assessments and other deficiencies involving ₹ 1,856.25 crore and recovered ₹ 35.80 crore. Report wise details of amount accepted and revenue recovered are as under:

(₹ in crore)				
Sl. No.	Year	Money value of Audit Report	Amount accepted by Department	Amount recovered
1.	2007-08	484.80	142.69	15.33
2.	2008-09	578.83	67.13	5.14
3.	2009-10	304.94	181.72	0.25
4.	2010-11	1,032.61	891.03	15.08
5.	2011-12	981.10	573.68	Nil
<b>Total</b>		<b>3,382.28</b>	<b>1,856.25</b>	<b>35.80</b>

Source: Data maintained in office of the Principal Accountant General

### 1.3 Analysis of mechanism for dealing with issues raised by Audit

Succeeding paragraphs 1.3.1 to 1.3.2.2 discuss performance of **Commerce and Transport Department** in dealing with cases detected in course of local audit conducted during last five years and also cases included in Audit Reports for the years 2008-09 to 2012-13.

<sup>4</sup> Commerce & Transport, Excise and Steel & Mines Departments.

### 1.3.1 Position of Inspection Reports

The summarised position of IRs issued during last five years, paragraphs included therein and their status as of March 2013 is 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
2008-09	306	2,925	336.43	43	309	71.99	5	232	9.62	344	3,002	398.80
2009-10	344	3,002	398.80	26	238	67.83	84	550	3.06	286	2,690	463.57
2010-11	286	2,690	463.57	38	350	104.16	Nil	35	0.33	324	3,005	567.40
2011-12	324	3,005	567.40	18	135	45.81	Nil	6	0.01	342	3,134	613.20
2012-13	342	3,134	613.20	58	350	99.36	Nil	Nil	0.04	400	3,484	712.52

Source: Data maintained in the PAG's office

In order to expedite settlement of pending IRs/paragraphs, 76 DAC meetings were held during above period wherein 89 IRs and 823 paras were settled.

Besides the above, during regular inspection of offices the pending IRs/paragraphs are reviewed on spot after obtaining compliance. Settlement of IRs/paragraphs are also made on receipt of compliance from Department and also on *suomoto* review of pending cases.

### 1.3.2 Assurances given by Department/Government on issues highlighted in Audit Reports

#### 1.3.2.1 Recovery of accepted cases

Position of paragraphs included in Audit Reports for last five years, those accepted by Commerce and Transport Department and amount recovered is detailed in the table below:

Year of the Audit Report	Number of paragraphs included	Money value of the paragraphs (₹ in crore)	Number of paragraphs accepted	Money value of accepted paragraphs (₹ in crore)	Amount recovered during the year (₹ in lakh)	Cumulative position of recovery of accepted cases (₹ in crore)
2007-08	9	60.37	8	59.20	0.42	8.79
2008-09	8+1(R)	74.06	8	72.51	0.04	9.66
2009-10	7	71.42	6	69.98	10.47	11.38
2010-11	7+1(PA)	72.28	7	70.90	-	14.75
2011-12	12	84.34	11	83.05	-	-
<b>Total</b>	<b>43+1(PA)+1(R)</b>	<b>362.47</b>	<b>40</b>	<b>355.64</b>	<b>10.93</b>	<b>44.58</b>

Source: Data maintained in the PAG's office

Recoveries out of accepted cases as reported to audit come to 12.54 per cent during the period from 2007-08 to 2011-12. As arrear demands of Motor Vehicle Tax and Fee are recoverable under the Schedule appended to the respective Act and the Odisha Public Demand Recovery (OPDR) Act, 1962, Government may initiate cases for realisation of balance amount of accepted cases.



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

Outcome of Performance Audits (PA) conducted by the PAG are forwarded to concerned Departments/Government through Draft PA Reports for their information with a request to furnish their replies/comments. These Reports are also discussed in an Exit Conference and Department's/Government's views are included while finalising the Audit Report.

Following table shows PAs undertaken in Commerce and Transport wing of Commerce and Transport Department featured in last six Audit Reports, issues highlighted, recommendations made and action taken by Government/ Department thereon including recommendations accepted by them.

Year of the Audit Report	Name of the PA	Number of recommendations made	Action taken by the Department
2005-06	Receipts from Motor Vehicles Department	4	Recommendations have been carried out by the Department. Steps have been taken to maintain the DCB Register, collect the arrears, dispose tax recovery cases and fill up the vacant post of Auditors.
2008-09	Information Technology Audit of VAHAN in the Motor Vehicle Department	7	Many recommendations have been carried out by the Department. Discussions and meetings had taken place with the designated service provider company at frequent intervals to eradicate short comings and delay in delivery of documents to the users.
2010-11	Computerisation in Motor Vehicle Department	4	The Government's compliances have not yet been received.

### 1.4 Audit planning

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. Annual Audit Plan is prepared on the basis of risk analysis which includes 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 Taxation Reforms Committee, Statistical Analysis of the revenue earnings during past five years, features of tax administration, audit coverage and its impact during past five years, etc.

Two hundred and forty five auditable units were planned and audited during the year 2012-13.

In Compliance Audit, two paragraphs on "Levy of Stamp Duty and Registration Fee on Development Agreements" and "Tax Deduction at Source from works contractors" and one Performance Audit (PA) on "Working of Steel and Mines Department" were also conducted to examine the efficacy of administration of these receipts.

## **1.5 Results of Audit**

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

From the test check of the records of 184 offices involved in assessment/ collection of OVAT (including OST)/CST/OET/PT etc., Motor Vehicles Tax, Stamp Duty and Registration Fee, State Excise Duty & Fees and Mining Receipts as well as one PA conducted during 2012-13, Audit noticed under assessment/ short-levy/loss of revenue etc., aggregating to ₹ 13,428.22 crore in 1,63,150 cases. During the year, Departments accepted under assessments and other deficiencies of ₹ 6,174.36 crore involved in 6,516 cases, of which 2,649 cases involving ₹ 6,166.08 crore were pointed out during 2012-13 and rest in earlier years. Departments collected ₹ 2.69 crore in 742 cases during 2012-13.

### **1.5.2 This Report**

This Report contains 61 paragraphs including two paragraphs on “Deduction of Tax at Source from works contractors” and “Levy of Stamp Duty and Registration Fee on Development Agreements”, besides one Performance Audit on “**Working of Steel & Mines Department**” involving financial effect of ₹ 6,195.38 crore. The Departments/ Government have accepted audit observations involving ₹ 5,407.82 crore out of which ₹ 7.46 lakh has been recovered. Replies for the remaining cases have not been received (April 2014). These observations are discussed in the succeeding chapters II to VI.