

CHAPTER I GENERAL

1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Andhra Pradesh during the year 2010-11, the State's share of divisible Union taxes 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	2006-07	2007-08	2008-09	2009-10	2010-11
I	Revenue raised by the State Government					
	• Tax revenue	23,926.20	28,794.05	33,358.29	35,176.68	45,139.55 ¹
	• Non-tax revenue	6,487.83	7,064.13	9,683.40	7,802.26	10,719.72
	Total	30,414.03	35,858.18	43,041.69	42,978.94	55,859.27
II	Receipts from the Government of India					
	• State's share of divisible Union taxes	8,866.00	11,183.64	11,801.50	12,141.71	15,236.75
	• Grants-in-aid	4,965.44	7,100.73	8,015.26	9,557.70	9,900.28
	Total	13,831.44	18,284.37	19,816.76	21,699.41	25,137.03
III	Total receipts of the State (I + II)	44,245.47	54,142.55	62,858.45	64,678.35	80,996.30
IV	Percentage of I to III	69	66	68	66	69

The above table indicates that during the year 2010-11, the revenue raised by the State Government was 69 per cent of the total revenue receipts (₹ 80,996.30 crore). The balance 31 per cent of the receipts during 2010-11 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 Andhra Pradesh for the year 2010-11. Figures 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 - 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 the State's share of divisible Union taxes in this table.

1.1.2 The following table presents the details of tax revenue raised during the period from 2006-07 to 2010-11:

(₹ in crore)

Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/ decrease (-) in 2010-11 over 2009-10
1.	Sales tax	14,222.67	17,593.41	20,596.47	22,278.14	27,443.24	(+) 23.18
	Central sales tax	1,244.41	1,433.08	1,255.19	1,362.07	1,701.61	(+) 24.93
2.	State excise	3,436.63	4,040.69	5,752.61	5,848.59	8,264.67	(+) 41.31
3.	Stamp duty and registration fees	2,865.38	3,086.06	2,930.99	2,638.63	3,833.57	(+) 45.29
4.	Taxes and duties on electricity	151.05	195.36	218.54	159.25	285.88	(+) 79.52
5.	Taxes on vehicles	1,364.74	1,603.80	1,800.62	1,995.30	2,626.75	(+) 31.65
6.	Taxes on goods and passengers	41.25	80.29	15.88	10.28	9.48	(-) 7.78
7.	Other taxes on income and expenditure, tax on professions, trades, callings and employments	312.21	355.72	374.46	430.36	490.33	(+) 13.93
8.	Other taxes and duties on commodities and services	148.84	171.00	203.13	170.01	206.28	(+) 21.33
9.	Land revenue	113.50	144.39	130.35	221.56	170.74	(-) 22.94
10.	Taxes on immovable property other than agricultural land	25.52	90.25	80.05	62.49	107.00	(+) 71.23
	Total	23,926.20	28,794.05	33,358.29	35,176.68	45,139.55	(+) 28.32

The following reasons for variation were reported by the concerned Departments:

- **Land revenue:** The decrease was mainly due to decrease in Land revenue/tax.
- **Taxes and duties on electricity:** The increase was due to realisation of electricity duty revenue pertaining to the financial year 2009-10 during current financial year from four distribution companies of AP Transco and also due to increase in chargeable consumption.
- **Stamp Duty and Registration Fees:** The increase was due to revision of market value of properties and withdrawal of exemption of stamp duty on flats with plinth area of less than 1200 square feet.

- **Taxes on vehicles:** The increase was on account of growth in auto sector; bringing the construction equipment vehicles into lifetime tax fold, increase in life tax for four wheelers and drive for collection of quarterly tax.
- **State Excise:** The increase was mainly due to increase in taxes on foreign liquors and spirits.

The other Departments did not intimate (October 2011) the reasons for variation, despite being requested (April/June 2011).

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2006-07 to 2010-11:

							(₹ in crore)
Sl. No.	Head of revenue	2006-07	2007-08	2008-09	2009-10	2010-11	Percentage of increase (+)/decrease (-) in 2010-11 over 2009-10
1.	Interest receipts	2,231.17	3,525.34	3,487.40	4,851.52	5,774.29	(+) 19.02
2.	Other non-tax receipts	682.73	711.03	1,187.74	1,126.82	1,497.02	(+) 32.85
3.	Forestry and wild life	87.11	90.92	93.22	103.11	139.06	(+) 34.87
4.	Non-ferrous mining and metallurgical industries (mines and minerals)	1,321.25	1,597.56	1,684.98	1,887.26	2,064.86	(+) 9.41
5.	Miscellaneous general services	1,865.90	778.64	2,944.06	(-) 617.71	806.97	(+) 230.64
6.	Power	22.11	25.13	15.77	26.12	27.61	(+) 5.70
7.	Major and medium irrigation	68.81	42.03	38.33	81.88	65.32	(-) 20.22
8.	Medical and public health	34.19	67.31	48.43	70.58	67.50	(-) 4.36
9.	Co-operation	23.61	39.14	20.09	37.51	29.21	(-) 22.13
10.	Public works	7.09	7.56	7.65	7.52	9.60	(+) 27.66
11.	Police	79.12	99.83	105.36	130.09	170.98	(+) 31.43
12.	Other administrative services	64.73	79.64	50.37	97.56	67.30	(-) 31.02
Total		6,487.83	7,064.13	9,683.40	7,802.26	10,719.72	(+) 37.39

The following reasons for variations were reported by the concerned Departments:

- **Other Administrative Services:** The decrease was mainly due to decrease in collection of other receipts under sub-head 'Elections'.
- **Major and medium irrigation:** Decrease was due to decrease in collection under 'Other receipts'.
- **Miscellaneous General Services:** Increase was due to allowing of debt waiver by Government of India in March 2011.
- **Forestry and wild life:** The increase was mainly due to increase in receipts under 'Other receipts'.
- **Police:** The increase was mainly due to increase in receipts from providing police force to other parties, fees, fines and forfeitures.
- **Interest Receipts:** The increase was due to increase in collection of interest from departmental, commercial undertakings.

The other Departments did not intimate (October 2011) the reasons for variations, despite being requested (April/June 2011).

1.2 Response of the Departments/Government towards audit

Accountant General (AG) conducts test check of the transactions of Government Departments and communicates the audit observations through Inspection Reports (IRs). The Heads of offices report compliance to the observations in IRs within one month from the date of issue of IRs.

The paragraphs remaining unsettled are expedited by the audit committees set up for the purpose. Serious audit observations converted as draft paragraphs proposed for inclusion in the Audit Report are communicated to the Department/Government. The Government is required to furnish the replies to such draft paragraphs within six weeks of their issue. Departmental explanatory notes to the paragraphs included in Audit Reports are required to be submitted within three months of an Audit Report being presented to the Legislature.

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

Accountant General (Audit) conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with 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 a copy to the next higher authority for taking prompt corrective action. The heads of offices/Government are required to promptly comply with the observations contained

in the IRs, rectify the defects and omissions and report compliance through initial reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of Departments and the Government.

IRs issued upto 31 December 2010 disclosed that 32,322 paragraphs involving ₹ 12,175.14 crore relating to 11,417 IRs remained outstanding at the end of 30 June 2011 as mentioned below alongwith corresponding figures for the preceding two years:

	June 2009	June 2010	June 2011
Number of outstanding IRs	10,292	10,689	11,417
Number of outstanding audit observations	27,382	28,990	32,322
Amount involved (₹ in crore)	10,221.24	11,916.66	12,175.14

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2011 and the amounts involved are mentioned below:

(₹ in crore)

Sl. No.	Department	Nature of receipt	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1.	Commercial Taxes	VAT/ST/LT/ET	3,797	13,752	3,412.75
2.	Land revenue	Water Tax	3,987	9,005	1,613.63
3.	Registration and Stamps	Stamp duty and Registration fees	2,081	5,733	709.26
4.	State Excise	State Excise	401	835	131.16
5.	Transport	Taxes on vehicles	394	1,908	2,432.47
6.	Forest	Forest Receipts	136	187	98.96
7.	Co-operation	Audit Fee	44	54	70.09
8.	Mines and minerals	Mineral Receipts	252	415	1,722.73
9.	Civil Supplies	Sale proceeds of food stocks	57	78	37.04
10.	Agriculture	Miscellaneous	183	252	--
11.	Sugar and cane	Purchase tax	59	73	249.55
12.	Energy Department	Electricity duty	16	20	809.45
13.	Municipal Administration and Urban Development	Royalty on water	2	2	83.19
14.	Finance and planning	Interest	4	4	474.81
15.	Irrigation and command area development	Road cess	4	4	330.05
Total			11,417	32,322	12,175.14

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 338 IRs issued upto December 2010. 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 AG in the IRs.

It is recommended that the Government should introduce a system for sending prompt and appropriate response to audit observations as well as taking action against those failing to send replies to the IRs/paragraphs as per the prescribed time schedules and also fail to take action to recover loss/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 2010-11 and the paragraphs settled are mentioned below:

(₹ in crore)

Sl. No.	Head of revenue	No. of meetings held	No. of paras settled	Amount
1.	Commercial Taxes	6	647	433.79
2.	Mines and Geology	8	262	22.62
3.	Taxes of Vehicles	1	321	18.18
4.	Stamp Duty and Registration Fee	1	228	0.29
5.	Land Revenue	5	1,472	0.42
Total		21	2,930	475.30

Thus, out of six principal Departments the State Excise Department failed to take advantage of the audit committee meetings set up.

As the pendency of IRs and paragraphs are accumulating, the Government may instruct all the Departments to conduct more audit committee meetings to expedite clearance.

1.2.3 Non-production of records to Audit for scrutiny

The programme of local audit of Tax/Non-tax receipts offices is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, audit of 933 offices was conducted. Out of these, in 210 offices certain important records like 311 Sales Tax assessment files, DCB registers, Receipt books, Motor Vehicle Inspectors' (MVI) Records, documents relating to letter of intent, special fee, professions tax remittances, copies of agreements etc., were not produced to audit though the audit programme was intimated well in advance.

There is a need for issuing suitable instructions by the Government to the heads of Departments concerned for production of all the relevant records for audit scrutiny.

1.2.4 Response of the Departments to draft audit paragraphs

The draft paragraphs/reviews proposed for inclusion in the Audit Report are forwarded by the AG to the Principal Secretaries of the concerned Departments through demi-official letters. According to the instructions issued (September 1995) by the Government, all the Departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

162 draft paragraphs clubbed into 44 paragraphs (including three performance audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Receipts) for the year ended 31 March 2011 were forwarded to the concerned Principal Secretaries to the Government and copies endorsed to the concerned heads of the Departments between April and September 2011. Of these, replies to 12 draft paragraphs have been received. The draft performance audits on "Taxation of works contracts under the AP VAT Act" and "Alienation of Government land and conversion of agricultural land for non-agricultural purposes" were discussed with the Government in the exit conferences held in July/August 2011. The replies to the audit observations given in the exit conferences held in July/August 2011 and at other points of time have been appropriately reflected in the Report.

1.2.5 Follow up on Audit Reports – Summary

As per the instructions issued by Finance and Planning Department in November 1993, the Departments of the Government are required to prepare and send to the Andhra Pradesh Legislative Assembly Secretariat, detailed explanations (Departmental notes) on the audit paragraphs within three months of an Audit Report being laid on the table of the Legislature.

A review of the position in this regard revealed that as of October 2011, 14 Departments had not furnished the Departmental notes in respect of 202 paragraphs included in the Audit Reports for the years 2000-01 to 2009-10 due between June 2002 and June 2011. The delays ranged from 4 months to over 9 years as mentioned in the following table:

Sl. No.	Department	Year of the Audit Report	Dates of presentation to the Legislature	Last date by which Departmental notes were due	No. of paragraphs for which the Departmental notes were due	Delay in months
1.	Commercial Taxes	2007-08 to 2009-10	September 2009 to March 2011	November 2009 to June 2011	57	4 to 23
2.	State Excise	2008-09 & 2009-10	July 2010 & March 2011	October 2010 & June 2011	5	4 to 12
3.	Transport	2006-07 to 2009-10	March 2008 to March 2011	June 2008 to June 2011	28	4 to 40
4.	Registration and Stamps	2009-10	March 2011	June 2011	7	4
5.	Co-operation	2000-01 & 2008-09	March 2002 & July 2010	June 2002 & October 2010	4	12 to 112

Sl. No.	Department	Year of the Audit Report	Dates of presentation to the Legislature	Last date by which Departmental notes were due	No. of paragraphs for which the Departmental notes were due	Delay in months
6.	Irrigation	2000-01 & 2006-07	March 2002 & March 2008	June 2002 & June 2008	4	40 to 112
7.	Land Revenue	2001-02 to 2009-10	March 2003 to March 2011	June 2003 to June 2011	56	4 to 100
8.	Industries and Commerce	2002-03 to 2009-10	July 2004 to March 2011	October 2004 to June 2011	29	4 to 84
9.	Home	2006-07	March 2008	June 2008	1	40
10.	Energy	2001-02	March 2003	June 2003	1	100
11.	Municipal Administration and Urban Development	2002-03 & 2003-04	July 2004 & October 2005	October 2004 & January 2006	3	69 to 84
12.	Finance	2001-02 & 2009-10	March 2003 & March 2011	June 2003 & June 2011	2	4 to 100
13.	Forests	2003-04, 2005-06, 2007-08 & 2008-09	October 2005, March 2007, September 2009 & July 2010	January 2006, June 2007, November 2009 & October 2010	4	12 to 69
14.	General Administration	2005-06	March 2007	June 2007	1	52
	Total	2000-01 to 2009-10	March 2002 to March 2011	June 2002 to June 2011	202	4 to 112

This indicates that the executive failed to take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue.

1.2.6 Compliance with the earlier Audit Reports

During the years 2005-06 to 2009-10, the Departments/Government accepted audit observations involving ₹ 1,861.06 crore out of which an amount of ₹ 20.38 crore was recovered till October 2011 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	189.69	49.60	4.45
2006-07	401.59	245.39	3.42
2007-08	443.46	177.31	4.42
2008-09	628.76	342.25	3.84
2009-10	1,168.41	1,046.51	4.25
Total	2,831.91	1,861.06	20.38

The recovery in respect of accepted cases was very low (1.10 *per cent*) compared to the accepted money value. The Government may advise the concerned Departments to take necessary steps for speedy recovery.

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

The succeeding paragraphs 1.3.1 and 1.3.2 discuss the performance of the Registration and Stamps 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 2005-06 to 2009-10.

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 2011 are tabulated in the following table:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			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
2006-07	1,140	1,828	297.05	260	329	28.33	18	35	0.31	1,382	2,122	325.07
2007-08	1,382	2,122	325.07	228	449	20.45	54	98	1.54	1,556	2,473	343.98
2008-09	1,556	2,473	343.98	230	508	47.98	12	33	0.72	1,774	2,948	391.24
2009-10	1,774	2,948	391.24	220	590	275.20	17	39	0.46	1,977	3,499	665.98
2010-11	1,977	3,499	665.98	215	514	152.96	52	173	1.65	2,140	3,840	817.29

The above position indicates that the performance of the Department in clearance of the paragraphs is minimal when compared to the addition of IR paragraphs each year.

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 below.

(₹ in lakh)

Year of AR	Number of paragraphs/reviews included	Money value of the paragraphs	Number of cases involved	Number of cases accepted	Money value of accepted cases	Amount recovered during the year	Cumulative position of recovery of accepted cases
2005-06	6	5,495.50	196	4	31.98	0.25	0.25
2006-07	6	2,575.89	125	2	76.39	--	0.25
2007-08	11	1,483.45	100	1	33.01	--	0.25
2008-09	11	2,916.38	145	40	580.28	6.34	6.59
2009-10	7	623.94	17	11	557.94	16.92	23.51
Total	41	13,095.16	583	58	1,279.60	23.51	

Against the money value of ₹ 1,279.60 lakh involved in the accepted cases a meagre amount of ₹ 23.51 lakh only was collected. This indicated that the recovery during the five year period as against the money value in accepted cases is very poor. Regarding mechanism for recovery, Government reported (September 2011) that orders were passed and entry made in the indexes to reflect the amount as charge in the Encumbrance Certificates of the relevant properties as the parties did not come forward to pay the amounts inspite of demand notices. It was stated that the District Collectors were also intimated to recover the dues under the Revenue Recovery Act.

1.3.2.2 Action taken on the recommendations accepted by the Department/Government

The draft performance reviews conducted by the AG are forwarded to the concerned Departments/Government for their information with a request to furnish their replies. Most of these reviews are also discussed in an exit conference and the Department's/Government's views are included while finalising the review for the Audit Reports.

The following are the issues highlighted in the reviews on the Registration and Stamps Department that featured in the last 10 Audit Reports including the recommendations and action taken by the Department on the recommendations accepted by it as well as the Government:

Year of Audit Report	Name of the Review/Number of recommendations included	Details of recommendations accepted	Status
2002-03	Exemptions, Remissions and concessions of Stamp Duty and Registration fee/ 2	Nil	Action taken not furnished by the Department.
2003-04	Review on Stamp Duty/ 4	<ol style="list-style-type: none"> 1. Prescribed procedure for indenting and supply of stamps should be enforced. 2. Monitoring mechanism should be instituted to watch the usage of NJ stamps with the sale of stamps in order to detect circulation of fake stamps. 3. Periodical verification of accounts of Stamp Vendors records by the concerned Sub-Registrars should be enforced. 4. Ensure that the licensed stamp vendors draw stamps from the concerned treasuries only and sell the stamps in their jurisdiction. In order to ensure this, an electronic database be maintained with suitable validation alert. 	Action taken not furnished by the Department.
2007-08	Computer aided Administration of Registration Department – CARD/ 10	Nil	Action taken not furnished by the Department.

Though all the recommendations made in the review for Audit Report 2003-04 were accepted by the Department/Government, no tangible action was initiated to implement the recommendations already accepted.

1.4 Arrears in assessment

The details of assessments relating to Sales Tax, Motor spirit tax, Professions tax, Entry tax, Lease tax, Luxury tax, pending at the beginning of the year, additional cases that are due for assessment during the year, cases disposed during the year and cases pending at the end of each year during 2006-07 to 2010-11 as furnished by the Commercial Taxes Department were as under:

Year	Opening balance	Cases which became due for assessment	Total	Cases disposed during the year	Cases pending at the end of the year	Percentage of disposed to total assessment
2006-07	99,164	27,077	1,26,241	97,768	28,473	77.45
2007-08	28,473	14,469	42,942	40,192	2,750	93.60
2008-09	2,750	17,052	19,802	17,042	2,760	86.06
2009-10	2,760	13,704	16,464	12,658	3,806	76.88
2010-11	3,806	11,995	15,801	11,545	4,256	73.06

The above table indicates that the percentage of assessments completed to the total assessments ranged between 73.06 *per cent* and 93.60 *per cent*. Further, the percentage of completion of assessments to the total assessments in 2010-11 was 73.06 *per cent*, which was the lowest when compared to the previous four years. The Department, however, did not attribute any reasons for the decline. Action plan drawn up by the department to liquidate these arrears has not been furnished by the Department (October 2011).

1.5 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* 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 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 2010-11, the audit universe comprised 2120 auditable units, of which 933 units were planned and audited during the year, which is 44 *per cent* of the total auditable units. The details are shown in Annexure-I to the Audit Report.

Besides the compliance audit mentioned above, two performance audits on “Taxation of Works Contracts under the APVAT Act” and “Cross verification of Declaration Forms used in Inter-State trade” in respect of Commercial Taxes Department and a performance audit on “Alienation of Government land and conversion of agricultural land for non-agricultural purpose” in respect of Land Revenue Department were also taken up to examine the efficacy of the tax administration of these receipts.

1.6 Results of audit

1.6.1 Position of local audit conducted during the year

Test check of the records of 933 units of commercial tax, stamp duty and registration fees, state excise, motor vehicles, land revenue and other Departmental offices conducted during the year 2010-11 revealed under assessments/short levy/loss of revenue aggregating to ₹ 1,778.34 crore in 2,497 cases. During the course of the year, the Department concerned accepted under assessments and other deficiencies of ₹ 1,059.12 crore involved in 1,221 cases of which 338 cases involving ₹ 688.51 crore were pointed out in audit during 2010-11 and the rest in the earlier years. The Departments collected ₹ 18.50 crore in 307 cases during 2010-11.

1.6.2 This Report

This Report contains 41 paragraphs involving ₹ 477.58 crore (selected from the audit detections made during local audit referred to above and during earlier years which could not be included in earlier reports) and three performance audits involving revenue implication of ₹ 294.85 crore relating to non/short levy of tax, duty, interest, penalty etc., involving total financial effect of ₹ 772.43 crore. The Government/Departments have accepted audit observations involving ₹ 548.39 crore out of which ₹ 79.62 lakh had been recovered. The replies in the remaining cases have not been received (October 2011). These are discussed in the succeeding Chapters II to VII.