CHAPTER I

GENERAL

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1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2010-11, the State's share of net proceeds of divisible Union taxes and duties assigned to States and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are given in the following table:

(₹ in crore)

Sl. No.	Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
1.	**Revenue raised by the State Government**					
	• Tax revenue	27,771.15	29,619.10	33,684.37	36,546.66	47,782.17
	• Non-tax revenue	3,422.57	3,304.37	5,712.33	5,027.05	4,651.45
	Total	**31,193.72**	**32,923.47**	**39,396.70**	**41,573.71**	**52,433.62**
2.	**Receipts from the Government of India**					
	• State's share of divisible Union taxes	6,393.86	8,065.27	8,510.80	8,756.20	10,913.98[1]
	• Grants-in-aid	3,325.65	6,531.77	7,135.01	5,514.22	6,840.02
	Total	**9,719.51**	**14,597.04**	**15,645.81**	**14,270.42**	**17,754.00**
3.	**Total receipts of the State Government (1 + 2)**	40,913.23	47,520.51	55,042.51	55,844.13	70,187.62
4.	**Percentage of 1 to 3**	**76**	**69**	**72**	**74**	**75**

The above table indicates that during the year 2010-11, the revenue raised by the State Government (₹ 52,433.62 crore) was 75 *per cent* of the total revenue receipts against 74 *per cent* in the preceding year. The balance 25 *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 of the Finance Accounts of the Government of Tamil Nadu for the year 2010-11. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to states' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the 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 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/ VAT*/ CST**/ Entry tax	17,727.16	18,156.36	20,674.70	22,661.52	28,614.23	(+) 26
2.	State excise	3,986.42	4,764.06	5,755.52	6,740.68	8,115.94	(+) 20
3.	Stamp duty and registration fees						
	Stamps – Judicial	68.79	76.87	79.58	78.63	98.08	(+) 25
	Stamps – non-judicial	2,442.89	3,124.92	3,127.28	3,019.98	3,817.57	(+) 26
	Registration fees	485.78	602.95	586.82	563.55	734.94	(+) 30
4.	Taxes on vehicles	1,260.88	1,483.21	1,709.57	2,024.64	2,660.05	(+) 31
5.	Land revenue	120.68	78.03	207.73	116.66	113.28	(-) 3
6.	Taxes on immovable property other than agricultural land (urban land tax)	14.45	15.75	11.79	12.01	10.21	(-) 15
7.	Others	1,664.10	1,316.95	1,531.38	1,328.99	3,617.87	172
	Total	**27,771.15**	**29,619.10**	**33,684.37**	**36,546.66**	**47,782.17**	

* VAT - Value Added Tax (introduced in Tamil Nadu with effect from 1 January 2007)

** CST – Central Sales Tax

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

State excise: The increase was due to increase in collection under foreign liquor, spirits and malt liquor.

Stamp duty and registration fees: The increase was due to increase in the sale of non-judicial stamps and increase in the registration of documents.

Taxes on vehicles: The increase was due to enhancement of life time tax.

The other Departments did not furnish (December 2011) the reasons for variation despite being requested (July 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, dividends and profits	1,134.00	1,282.20	1,501.09	1,845.61	1,689.78	(-) 8
2.	Crop husbandry	74.45	82.41	73.53	92.54	116.30	(+) 26
3.	Forestry and wild life	82.31	46.42	82.65	86.90	139.22	(+) 60
4.	Non-ferrous mining and metall-urgical industries	566.64	581.76	527.36	610.89	675.87	(+) 11
5.	Education, sports, art and culture	215.83	301.40	302.74	383.64	518.83	(+) 35
6.	Other receipts	1,349.34	1,010.18	3,224.96	2,007.47	1,511.45	(-) 25
Total		**3,422.57**	**3,304.37**	**5,712.33**	**5,027.05**	**4,651.45**	

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

Interest receipts, dividends and profits: The decrease was due to less interest realised on investment on cash balances and from public sector and other undertakings.

Crop husbandry: The increase was due to receipts from (i) pulses seed multiplication scheme, (ii) State seed farm and (iii) distribution of improved seeds of paddy and millets.

Forestry and wild life: The increase was due to increased sale of timber and other forest produce.

Non-ferrous mining and metallurgical industries: The increase was due to increase in receipts under mineral concession fees, rents and royalties.

Education, sports, art and culture: The increase of revenue was due to increased receipts from secondary education, tuition and other fees under technical education and elementary education respectively.

1.2 Response of the Departments/Government towards audit

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

The Principal Accountant General (Commercial & Receipt Audit), Tamil Nadu (PAG) arranges to conduct periodical inspections 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 copies to the next higher authorities for taking prompt corrective action. The heads of the offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Departments and the Government.

We reviewed the IRs issued upto 31 December 2010 and found that 23,075 paragraphs involving ₹ 3,424.21 crore relating to 7,101 IRs remained outstanding at the end of June 2011 as mentioned below along with the corresponding figures for the preceding two years:

	June 2009	June 2010	June 2011
Number of outstanding IRs	7,213	7,204	7,101
Number of outstanding audit observations	24,693	23,636	23,075
Amount involved (₹ in crore)	3,417.03	3,442.72	3,424.21

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

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding		Money value involved (₹ in crore)
			Inspection reports	Audit observations	
1.	Commercial Taxes and Registration	Sales tax (TNGST/CST/VAT)	3,093	14,563	1,052.50
		Stamp duty and registration fees	1,377	3,184	332.89
		Entry tax	164	295	5.82
		Entertainment tax	54	58	2.18
		Luxury tax	111	130	2.28
		Betting tax	12	23	0.09
2.	Revenue	Land revenue	928	2,169	1,304.99
		Urban land tax	255	722	45.98
		Taxes on agricultural income	72	175	81.03

3.	Home (Transport)	Taxes on vehicles	470	800	108.86
4.	Home (Prohibition and Excise)	State excise	216	283	81.86
5.	Industries	Mines and minerals	273	552	342.64
6.	Energy	Electricity duty	76	121	63.09
Total			**7,101**	**23,075**	**3,424.21**

Even the first replies required to be received from the heads of offices within one month from the date of issue of IRs were not received for 1,077 paragraphs issued upto December 2010. This large pendency of IRs due to non-receipt of the replies was indicative of the fact that the heads of offices and heads of the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

We recommend that the Government may take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who did not send replies to the IRs/paragraphs as per the prescribed time schedules and also did not take action to recover the loss/outstanding demand in a time bound manner.

1.2.2 Departmental audit committee meetings

The Government set up audit committees (during various periods) to monitor and expedite the progress of the settlement of the paragraphs in the IRs. The details of the audit committee meetings held during the year 2010-11 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled	Money value involved (₹ in crore)
Sales tax/VAT	4	335	0.68
Taxes on vehicles	3	120	2.46
Stamp duty and registration fees	1	---	----
Mines and minerals	1	---	----
Electricity duty	1	---	----
Total	**10**	**455**	**3.14**

It may be seen from the table that though 10 meetings were conducted and 455 paragraphs were settled, the money value involved in these observations was not even one *per cent* of the total money value of ₹ 1,910.35 crore of the outstanding audit observations in respect of the heads of revenue mentioned in the table. This indicates that final rectificatory action has not been taken in respect of observations involving financial implications and thus they remain unresolved.

We recommend that the Government may suitably instruct the concerned Departments to take rectificatory action on all audit observations.

1.2.3 Non-production of records to audit for scrutiny

We draw up the programme of local audit of commercial tax offices sufficiently in advance and issue intimations, usually one month before the local audit, to the Department to enable them to keep the relevant records ready for audit scrutiny.

During 2010-11, 19,972 sales tax (Tamil Nadu General Sales Tax/Central Sales Tax/Value Added Tax) assessment records relating to 225 offices were not made available to us for audit. Of these, 700 assessments pertain to six special circles (four large taxpayers units in Chennai and two fast track assessment circles in Coimbatore). Out of the above 19,972 records, 11,140 records pertains to the period upto 2005-06 and the rest for the subsequent assessment years.

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of underassessments, if any, might become barred by limitation, by the time these files are produced to audit.

We brought the matter regarding non-production of records in each office to the notice of the Department through the local audit reports of the respective offices.

The non-production of assessment records defeats the accountability of the executive and also hinders the discharge of duties of the Comptroller and Auditor General of India as enshrined in the Constitution.

1.2.4 Response of the Departments to draft audit paragraphs

The Government (Finance Department) issued directions (April 1952) to all Departments to send their responses to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks from the date of receipt of the draft paragraphs. The draft paragraphs are forwarded to the Secretaries of the concerned Departments through demi-official letters, drawing their attention to the audit findings with a request to send their response within six weeks. The fact of non-receipt of replies from the Departments is invariably indicated at the end of each such paragraph included in the Audit Report.

We forwarded 46 draft paragraphs (clubbed into 28 paragraphs including three performance audits) proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2011 to the Secretaries of the respective Departments during March-November 2011 through demi-official letters. The Secretaries of the Departments did not send replies to 41 draft paragraphs (including three performance audits). Thus, there was non-compliance to the above mentioned instructions of the Government. Therefore, these paragraphs have been proposed for inclusion in the report without the response of the Secretaries of the Departments concerned.

1.2.5 Follow-up on Audit Reports

With a view to ensuring accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) had directed that the Department concerned should furnish remedial/corrective Action Taken Notes (ATN) on the recommendations of PAC relating to the paragraphs contained in the Audit Reports within the prescribed time frame. We reviewed the outstanding ATNs as of 31 March 2011 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu and found that the Departments had not submitted the ATNs for 986 recommendations pertaining to 290 audit paragraphs discussed by PAC. Out of the pending 986 recommendations, ATNs have not been received in respect of 441 recommendations even once, the earliest of which relates to the Audit Report-1986-87.

Further, PAC has also laid down that necessary explanatory notes for those issues mentioned in the Audit Reports should be furnished to the Committee within a maximum period of two months from the date of placing of the Report before the Legislature. Though the Audit Reports for the years from 2001-02 to 2009-10 were placed before the Legislative Assembly between May 2003 and September 2011, the Departments are yet to submit explanatory notes for 107 paragraphs (including 11 reviews) included in these reports.

1.2.6 Compliance with earlier Audit Reports-position of recovery of accepted cases

During the period from 2005-06 to 2009-10, the Departments/Government accepted audit observations involving ₹ 166.70 crore, of which ₹ 84.87 crore had been recovered till 31 October 2011 as given in the following table:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2005-06	228.71	5.18	2.26
2006-07	151.38	91.42	64.68
2007-08	408.47	46.49	9.30
2008-09	337.40	10.48	2.11
2009-10*	239.97	13.13	6.52
Total	**1,365.93**	**166.70**	**84.87**
* including a stand alone report on Registration Department			

The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.

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 IRs/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 one Department is evaluated and included in each Audit Report.

Accordingly, the succeeding paragraphs 1.3.1 to 1.3.2 discuss the performance of the **Industries Department (Mines and Minerals)** 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 IRs issued in respect of the Industries Department (Mines and Minerals) during the last five years, paragraphs included in these reports and their status as on 30 September 2011 are given in the following table:

(₹ in crore)

Year	Opening balance			Additions 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
2005-06	232	646	284.06	29	85	16.78	1	22	0.35	260	709	300.49
2006-07	260	709	300.49	24	84	1.35	5	57	1.68	279	736	300.16
2007-08	279	736	300.16	28	73	6.47	13	82	2.34	294	727	304.29
2008-09	294	727	304.29	19	34	2.20	33	167	2.33	280	594	304.16
2009-10	280	594	304.16	11	29	0.16	35	145	2.54	256	478	301.78

It is seen from the above table that there is no significant reduction in the outstanding IRs as well as paragraphs over the years.

We recommend that the Government may issue suitable instructions to the Department to take appropriate steps to clear the outstanding audit observations at the earliest.

1.3.2 Assurances given by the Department/Government on the issues highlighted in the Audit Reports – Recovery of accepted cases

The position of paragraphs in respect of the Industries Department (Mines and Minerals) included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered are given in the following table:

(₹ in lakh)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered
2005-06	2	55.68	1	11.17	11.17
2006-07	2	681.00	1	7.00	4.49
2007-08	1	104.00	1	104.00	77.84
2008-09	1 (Review)	10,985.00	---	336.00	---
2009-10	---	----	---	---	---
Total	**6**	**11,825.68**	**3**	**458.17**	**93.50**

The above table indicates that the overall percentage of recoveries of the accepted cases is only 20 *per cent* which is very low.

The Government may issue directions to the Department to recover the revenue involved in accepted cases on priority basis.

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 the past five years etc.

During the year 2010-11, the audit universe comprised 1,390 auditable units, of which 630 units were planned. Out of this, 591 units were audited during the year 2010-11 i.e., 42 *per cent* of the total auditable units. The details are shown in Annexure I.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

We test checked the records of 568 units of commercial taxes, land revenue, motor vehicles tax, stamp duty and registration fees, electricity tax and mines and minerals in 2010-11 and found underassessments, short levy, loss of revenue and other observations amounting to ₹ 1,173.24 crore in 2,150 cases. During the year, the Departments accepted underassessments and other deficiencies in 1,043 cases involving ₹ 15.97 crore of which 371 cases involving ₹ 7.37 crore were pointed out in 2010-11 and the rest in earlier years. The Departments collected ₹ 7.59 crore during 2010-11.

1.5.2 This Report

This Report contains 28 paragraphs including three performance audits relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving financial effect of ₹ 742 crore. The Departments/ Government accepted audit observations involving ₹ 15.62 crore, of which ₹ 1.19 crore had been recovered/adjusted by the Departments. We have not received replies in the remaining cases (December 2011). These are discussed in the succeeding chapters II to VII.