

CHAPTER I

GENERAL

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 2012-13, 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 mentioned below:

(₹ in crore)						
Sl. No.	Particulars	2008-09	2009-10	2010-11	2011-12	2012-13
1.	Revenue raised by the State Government					
	• Tax revenue	33,684.37	36,546.66	47,782.17	59,517.66	71,254.27
	• Non-tax revenue	5,712.33	5,027.05	4,651.45	5,683.57	6,554.26
	Total	39,396.70	41,573.71	52,433.62	65,201.23	77,808.53
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	8,510.80	8,756.20	10,913.98	12,714.60	14,519.69 ¹
	• Grants-in-aid	7,135.01	5,514.22	6,840.02	7,286.31	6,499.48
	Total	15,645.81	14,270.42	17,754.00	20,000.91	21,019.17
3.	Total revenue receipts of the State Government (1 + 2)	55,042.51	55,844.13	70,187.62	85,202.14	98,827.70
4.	Percentage of 1 to 3	72	74	75	77	79
Source: Finance Accounts of Government of Tamil Nadu						

The above table indicates that during the year 2012-13, the revenue raised by the State Government (₹ 77,808.53 crore) was 79 per cent of the total revenue receipts as against 77 per cent in the preceding year. The balance 21 per cent of the receipts during 2012-13 was from the Government of India.

¹ For details please see Statement No. 11 – Detailed statements of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2012-13. 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 2008-09 to 2012-13:

(₹ in crore)

Sl. No.	Head of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/ decrease (-) in 2012-13 over 2011-12
1.	Sales tax/VAT	20,674.70	22,661.52	28,614.23	36,288.90	44,041.13	(+) 21.36
2.	State excise	5,755.52	6,740.68	8,115.94	9,975.21	12,125.68	(+) 21.56
3.	Stamp duty and registration fees						
	Stamps – Judicial	79.58	78.63	98.08	105.65	114.64	(+) 8.51
	Stamps – non-judicial	3,127.28	3,019.98	3,817.57	5,505.56	6,227.44	(+) 13.11
	Registration fees	586.82	563.55	734.94	969.57	1,303.32	(+) 34.42
4.	Taxes on vehicles	1,709.57	2,024.64	2,660.05	3,101.09	3,928.43	(+) 26.68
5.	Land revenue	207.73	116.66	113.28	87.21	131.31	(+) 50.57
6.	Taxes on immovable property other than agricultural land (urban land tax)	11.79	12.01	10.21	10.89	16.75	(+) 53.81
7.	Others	1,531.38	1,328.99	3,617.87	3,473.58	3,365.57	(-) 3.11
Total		33,684.37	36,546.66	47,782.17	59,517.66	71,254.27	

Source: Finance Accounts of Government of Tamil Nadu

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

Sales tax/VAT: The increase in revenue was due to increase in tax rate and revenue buoyancy in non-VAT goods, automobile sector, fast moving consumer goods sector and edible oil.

State excise: The increase in revenue was due to upward revision of privilege fee and license fee and huge receipts under “vend fee on foreign liquor and spirits”, duty on beer and malt liquor.

Stamp duty and registration fees: The increase in revenue was due to revision of guideline rates for immovable properties with effect from 1 April 2012.

Land revenue: The increase was mainly due to increase in revenue under ‘sale proceeds of waste lands and redemption of land tax’ and ‘receipts in connection with survey and settlement operations’.

Taxes on vehicles: The increase in revenue was due to revision of tax with effect from 1 April 2012.

Taxes on immovable property other than agricultural land (urban land tax): The increase in revenue was due to efforts taken by the Assistant Commissioners (being entrusted with collection work also) in co-ordinating with the collection agency viz., Taluk Tahsildars and Revenue Divisional Officers.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2008-09 to 2012-13:

(₹ in crore)							
Sl. No.	Head of revenue	2008-09	2009-10	2010-11	2011-12	2012-13	Percentage of increase (+)/ decrease (-) in 2012-13 over 2011-12
1.	Interest receipts, dividends and profits	1,501.09	1,845.61	1,689.78	2,056.89	2,053.88	(-) 0.15
2.	Crop husbandry	73.53	92.54	116.30	125.32	125.85	(+) 0.42
3.	Forestry and wild life	82.65	86.90	139.22	105.86	93.94	(-) 11.26
4.	Non-ferrous mining and metallurgical industries	527.36	610.89	675.87	943.83	927.19	(-) 1.76
5.	Education, sports, art and culture	302.74	383.64	518.83	483.26	751.88	(+) 55.58
6.	Other receipts	3,224.96	2,007.47	1,511.45	1,968.41	2,601.52	(+) 32.16
Total		5,712.33	5,027.05	4,651.45	5,683.57	6,554.26	

Source: Finance Accounts of Government of Tamil Nadu

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

Forestry and wild life: The decrease in revenue was due to decrease under “Miscellaneous receipts”.

Education, Sports, Art and Culture: The increase was mainly due to increase in revenue under ‘Re-imburement of expenditure under Rashtriya Madhyamik Shiksha Abhiyan’, ‘Tuition and other fees’ under ‘Adult Education’ and ‘Receipts for payment of teachers in Government High Schools and Higher Secondary Schools under Sarva Shiksha Abhiyan’.

1.2 Response of the Departments/Government towards audit

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

The Principal Accountant General (Economic and Revenue Sector Audit), Tamil Nadu (PAG) 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 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 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.

Review of IRs issued upto 31 December 2012 disclosed that 24,237 paragraphs involving ₹ 3,622.83 crore relating to 7,524 IRs remained outstanding at the end of June 2013. A table containing figures for the current year and preceding two years is given below:

	June 2011	June 2012	June 2013
Number of outstanding IRs	7,101	7,008	7,524
Number of outstanding audit observations	23,075	22,320	24,237
Amount involved (₹ in crore)	3,424.21	3,054.95	3,622.83

Department-wise details of the IRs and audit observations outstanding as on 30 June 2013 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/Value added tax	3,182	14,495	1,384.93
		Stamp duty and registration fees	1,545	3,362	763.92
		Entry tax	164	295	5.82
		Entertainment tax	56	62	2.57
		Luxury tax	114	137	4.57
		Betting tax	12	23	0.09
2.	Revenue	Land revenue	1,104	3,091	483.55
		Urban land tax	220	585	42.62
		Taxes on agricultural income	72	175	81.03
3.	Home (Transport)	Taxes on vehicles	455	1,010	94.14
4.	Home (Prohibition and Excise)	State excise	221	276	78.10
5.	Industries	Mines and minerals	286	561	321.91
6.	Energy	Electricity duty	93	165	359.58
Total			7,524	24,237	3,622.83
Source: As per data maintained in office of the PAG					

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 812 paragraphs issued upto December 2012. This large pendency of IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by Audit in IRs.

It is recommended that the Government takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as taking action against officials/officers who fail to send replies to 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 (during various periods) to monitor and expedite the progress of the settlement of paragraphs in the IRs. The details of Audit Committee Meetings held during the year 2012-13 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled	Money value involved (₹ in crore)
Stamp duty and registration fees	12	766	75.22
Mines and minerals	1	55	3.21
Total	13	821	78.43

As large number of IRs and paragraphs are pending settlement, it is recommended that the Government may instruct all Departments to conduct more Audit Committee Meetings, after furnishing replies, to expedite clearance.

1.2.3 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2012-13, 33,429 sales tax assessment records relating to 166 offices were not made available for audit. Of these, 195 assessments pertain to three special circles where assessments of major dealers are dealt with.

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.

The matter regarding non-production of records in each office and arrears in assessment is brought to the notice of the Department through the local audit reports of the respective offices.

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 indicated at the end of each such paragraph included in the Audit Report.

Forty one draft paragraphs (clubbed into 18 paragraphs including two Performance Audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2013 were forwarded to the Secretaries of the respective Departments during April-November 2013 through demi-official letters. The Secretaries of the Departments did not send replies to 27 draft paragraphs (December 2013). Thus, there was non-compliance to the above mentioned instructions of the Government. These paragraphs have been included 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) 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. The review of the outstanding ATNs as of 31 March 2013 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu indicated that the Departments had not submitted ATNs for 1,113 recommendations pertaining to 312 audit paragraphs discussed by PAC. Out of the pending 1,113 recommendations, even the first ATN has not been received in respect of 572 recommendations, the earliest of which relates to the Audit Report for the year 1986-87.

Further, PAC has laid down that necessary explanatory notes for the 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 2011-12 were placed before the Legislative Assembly between May 2003 and May 2013, the Departments are yet to submit explanatory notes for 120 paragraphs included in these Reports.

1.2.6 Compliance with the earlier Audit Reports – Position of recovery of accepted cases

During the period from 2007-08 to 2011-12, the Departments/Government accepted audit observations involving ₹ 336.15 crore, of which ₹ 31.01 crore were recovered till 31 October 2013 as mentioned below:

(₹ in crore)

Subject	Total money value	Accepted money value	Collected
2007-08	408.47	103.13	9.31
2008-09	337.40	115.99	2.22
2009-10	239.97	13.13	6.52
2010-11	742.00	20.00	6.58
2011-12	549.40	83.90	6.38
Total	2,277.24	336.15	31.01

The Government may institute a mechanism to monitor the position of recoveries in respect of the cases 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 Performance Audits 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 1.3.2.2 discuss the performance of the **Home (Prohibition and Excise) Department – State Excise** 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 IRs issued in respect of the Home (Prohibition and Excise) Department – State Excise during the last five years, paragraphs included in these IRs and their status as on 30 September 2013 are tabulated below:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Para gra phs	Money value	IRs	Para gra phs	Money value	IRs	Para gra phs	Money value	IRs	Para gra phs	Money value
2007-08	303	591	129.50	13	18	0.42	22	49	0.46	294	560	129.46
2008-09	294	560	129.46	17	37	1.82	63	168	41.67	248	429	89.61
2009-10	248	429	89.61	33	55	9.66	70	191	12.63	211	293	86.64
2010-11	211	293	86.64	12	17	0.70	25	80	8.15	198	230	79.19
2011-12	198	230	79.19	23	36	1.55	6	15	2.72	215	251	78.02

The above position indicates that large number of inspection reports and paragraphs are pending settlement.

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

1.3.2.1 Recovery of accepted cases

During the last five years, two paragraphs including one Performance Audit amounting to ₹ 11.19 crore in respect of Home (Prohibition and Excise) Department – State Excise were included in the Audit Reports. The Department accepted audit observations involving ₹ 7.30 crore and collected ₹ one lakh.

This indicates that the overall percentage of recoveries of the accepted cases to the money value of the paragraphs included is less than one *per cent* which is very low.

The Government may institute a mechanism to monitor the position of recoveries in respect of the cases pointed out in the Audit Reports.

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

The draft Performance Audit Reports are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These Reports are also discussed in exit conference and the Department's/Government's views are considered while finalising the Performance Audit Reports.

A Performance Audit on Functioning of Prohibition and Excise Department featured in the Audit Report for the year ended March 2012. The Performance Audit contained four recommendations. Response to the recommendations has not been received.

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, nature/volume of transactions, etc. The annual audit plan is prepared on the basis of risk analysis which, *inter-alia*, includes 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 2012-13, the audit universe comprised 1,241 auditable units, of which 374 units were planned and audited during the year 2012-13 i.e., 30 *per cent* of the total auditable units. The details are shown in Annexure-1.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

The records of 374 units of commercial taxes, state excise, motor vehicles tax, stamp duty and registration fees, electricity tax and mines and minerals were test checked during 2012-13 and underassessments, short levy, loss of revenue and other observations amounting to ₹ 1,635.97 crore were noticed in 1,828 cases. During the year, the Departments accepted underassessments and other deficiencies in 668 cases involving ₹ 14.86 crore. Out of this, 311 cases involving ₹ 7.09 crore were pointed out in 2012-13 and 357 cases involving ₹ 7.77 crore pertain to objections raised in earlier years. The Departments collected ₹ 6.99 crore during 2012-13.

1.5.2 This Report

This Report contains 18 paragraphs including two Performance Audits relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving financial effect of ₹ 171.25 crore. The Departments/Government accepted audit observations involving ₹ 8.40 crore of which ₹ 1.53 crore had been recovered/adjusted by the Departments. Reply in respect of remaining cases has not been received (December 2013). These are discussed in succeeding Chapters II to V.