

***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 Andhra Pradesh during the year 2013-14, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned in **Table - 1.1.1**.

**Table - 1.1.1**  
**Trend of revenue receipts**

(₹ in crore)

Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14 <sup>1</sup>
1.	<b>Revenue raised by the State Government</b>					
	• Tax revenue	35,176.68	45,139.55	53,283.41	59,875.05	64,123.53
	• Non-tax revenue	7,802.26	10,719.72	11,694.34	15,999.14	15,472.86
	<b>Total</b>	<b>42,978.94</b>	<b>55,859.27</b>	<b>64,977.75</b>	<b>75,874.19</b>	<b>79,596.39</b>
2.	<b>Receipts from the Government of India</b>					
	• Share of net proceeds of divisible Union taxes and duties	12,141.71	15,236.75	17,751.15	20,270.77	22,131.89
	• Grants-in-aid	9,557.70	9,900.28	10,824.79	7,685.32	8,990.55
	<b>Total</b>	<b>21,699.41</b>	<b>25,137.03</b>	<b>28,575.94</b>	<b>27,956.09</b>	<b>31,122.44</b>
3.	<b>Total revenue receipts of the State Government (1 and 2)</b>	<b>64,678.35</b>	<b>80,996.30</b>	<b>93,553.69</b>	<b>1,03,830.28</b>	<b>1,10,718.83</b>
4.	<b>Percentage of 1 to 3</b>	<b>66</b>	<b>69</b>	<b>69</b>	<b>73</b>	<b>72</b>

The above table indicates that during the year 2013-14, the revenue raised by the State Government (₹ 79,596.39 crore) was 72 per cent of the total revenue receipts. The balance 28 per cent of the receipts during 2013-14 was from the Government of India.

<sup>1</sup> For details please see Statement No.11- Detailed accounts of revenue by minor heads in the Finance Accounts of Andhra Pradesh for the year 2013-14. 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 details of the tax revenue raised during the period 2009-10 to 2013-14 are given in **Table 1.1.2**.

**Table 1.1.2**  
**Details of Tax Revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14 <sup>2</sup>		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Taxes on sales, trade etc.	27,685	23,640	31,838	29,145	38,306	34,910	45,000	40,715	52,500	48,737	(+)19.7
2.	State excise duties	6,260	5,849	7,512	8,265	9,014	9,612	10,820	9,129	7,500	6,250	(-)31.54
3.	Stamp Duty and Registration Fees	3,224	2,639	3,546	3,834	4,240	4,385	4,968	5,115	6,414	4,393	(-)14.12
4.	Motor Vehicles Tax	2,315	1,995	2,778	2,627	3,434	2,986	3,640	3,356	4,351	3,335	(-)0.64
5.	Others	13,942	1,054	1,325	1,270	1,445	1,389	1,593	1,559	1,676	1,408	(-) 9.7
	<b>Total</b>	<b>53,426</b>	<b>35,177</b>	<b>46,999</b>	<b>45,141</b>	<b>56,439</b>	<b>53,282</b>	<b>66,021</b>	<b>59,874</b>	<b>72,441</b>	<b>64,123</b>	<b>(+) 7.10</b>

The respective Departments reported the following reasons for large variations:

**State Excise:** Revenue decreased due to enhancement of APBCL margins, additional trade margins and increase of VAT.

**Stamp Duty and Registration Fees:** Revenue decreased due to slowdown in Real Estate, monsoon failure and agitations for State's bifurcation.

1.1.3 The details of the non-tax revenue raised during the period 2009-10 to 2013-14 are indicated in **Table 1.1.3**:

**Table 1.1.3**  
**Details of Non-tax revenue raised**

(₹ in crore)

Sl. No.	Head of revenue	2009-10		2010-11		2011-12		2012-13		2013-14		Percentage of increase (+) or decrease (-) in 2013-14 over 2012-13
		BE	Actual	BE	Actual	BE	Actual	BE	Actual	BE	Actual	
1.	Interest receipts	4,456	4,852	7,097	5,774	7,164	6,279	8,632	9,626	8,656	8,646	(-)10.17
2.	Mines & Minerals	2,450	1,887	2,695	2,065	2,995	2,337	2,734	2,771	3,083	2,731	(-)1.46
3.	Education, Sports, Art and Culture	185	55	194	238	204	675	274	1,196	1,219	1,676	(+)40.12
4.	Others	5,863	1,008	5,717	2,643	1,976	2,404	2,213	2,407	2,436	2,420	(+)0.57
	<b>Total</b>	<b>12,954</b>	<b>7,802</b>	<b>15,703</b>	<b>10,720</b>	<b>12,339</b>	<b>11,695</b>	<b>13,853</b>	<b>16,000</b>	<b>15,394</b>	<b>15,473</b>	<b>(-)3.29</b>

<sup>2</sup> Source : Statement 11 of Finance Accounts 2013-14.

## 1.2 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2014 on some principal heads of revenue as provided by the concerned departments, amounted to ₹ 7326.52 crore of which ₹ 2337.06 crore was outstanding for more than five years, as detailed in the **Table -1.2**.

**Table 1.2**  
**Arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2014	Amount outstanding for more than 5 years as on 31 March 2014
1	State Excise Duties	65.10	59.80
2	Taxes on Vehicles	3,955.87	2,002.67
3	Stamp Duty and Registration Fees	103.10	44.47
4	Mines and Minerals	90.22 <sup>#</sup>	74.96 <sup>#</sup>
5	Land Revenue	395.85	NF*
6	Taxes and duties on electricity	2,716.38	155.16
<b>Total</b>		<b>7,326.52</b>	<b>2,337.06</b>

<sup>#</sup> These figures belong to the 10 districts (Adilabad, Hyderabad, Karimnagar, Khammam, Mahbubnagar, Medak, Nalgonda, Nizamabad, Rangareddy and Warangal) only.

\* Not furnished.

It would be seen from the table that recovery of ₹ 2337.06 crore was pending for more than five years.

The Commercial Tax Department did not furnish the information of arrears of revenue though called for.

## 1.3 Arrears in assessments

As per the provisions of the AP VAT Act, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within three years. However, no information was furnished by Commercial Tax Department on arrears of CST assessments.

## 1.4 Evasion of tax detected by the department

The details of cases of evasion of tax detected by the Departments, cases finalised the demands for additional tax raised and cases pending for finalization as on 31 March 2014, in respect of different heads of revenue were called for from the concerned Departments. In respect of State Excise Duties, Motor Vehicles Taxes and receipts from Mines and Minerals, the concerned Departments have reported that no such case was detected, finalized or pending. However, Departments of Commercial taxes, Stamps and Registration, Land Revenue and Electricity did not furnish any information in this regard.

### 1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2013-14, claims received during the year, refunds allowed during the year and the cases pending at the close of the year 2013-14 as reported by the Departments is given in **Table 1.5**.

**Table 1.5**  
**Details of pendency of refund cases**

Sl. No.	Particulars	State Excise (₹ in crore)	
		No. of cases	Amount
1.	Claims outstanding at the beginning of the year	106	0.85
2.	Claims received during the year	6	0.89
3.	Refunds made during the year	14	1.45
4.	Balance outstanding at the end of year	98	0.29

The Commercial Tax Department did not furnish information on refund cases though called for.

### 1.6 Response of the Government / departments towards audit

The Accountant General (E & RSA), Andhra Pradesh 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 the 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 reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and the Government.

Inspection reports issued up to December 2013 disclosed that 31,179 paragraphs involving ₹ 13,954.59 crore relating to 9,892 IRs remained outstanding at the end of June 2014 as mentioned below along-with the corresponding figures for the preceding two years in **Table 1.6**.

**Table 1.6**  
**Details of pending Inspection Reports**

	June 2012	June 2013	June 2014
Number of IRs pending for settlement	11,444	10,925	9,892
Number of outstanding audit observations	34,117	32,118	31,179
Amount of revenue involved (₹ in crore)	12,873.06	12,909.94	13,954.59

**1.6.1** The Department-wise details of the IRs and audit observation outstanding as on 30 June 2014 and the amounts involved are mentioned in the **Table 1.6.1**.

**Table 1.6.1**  
**Department-wise details of IRs**

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding audit observations	Money value involved
1.	Commercial Taxes	Taxes on Sales, Trade etc. Entertainment & luxury tax etc.	4,048	14,892	3,714.7
2.	Excise	State Excise	757	2,133	210.94
3.	Revenue	Land Revenue	1,933	3,722	3,972.67
4.	Transport	Taxes on motor vehicles	482	2,602	2,681.24
5.	Stamps and Registration	Stamp duty and registration fees	2,346	6,754	774.67
6.	Mines and Geology	Non-ferrous mining and metallurgical industries	310	1,056	1,790.92
7.	Electricity	Electricity	16	20	809.45
<b>Total</b>			<b>9,892</b>	<b>31,179</b>	<b>13,954.59</b>

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs, for 126 IRs issued during 2013-14. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

### **1.6.2 Departmental audit committee meetings**

The Government departments set up audit committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2013-14 and the paragraphs settled are mentioned in **Table 1.6.2**.

**Table 1.6.2**  
**Details of Departmental audit committee meetings**

(₹ in crore)

Sl. No.	Head of revenue	Number of meetings held	Number of paras settled	Amount
1.	Land Revenue	5	1,733	3.82

### **1.6.3 Non-production of records to audit for scrutiny**

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

During the year 2013-14 as many as 87 assessment files, returns, refunds, registers and other relevant records were not made available to audit. Break up of these cases is given in **Table 1.6.3**.

**Table 1.6.3**  
**Details of non-production of records**

Name of the Office/ Department	Year in which it was to be audited	Number of cases not audited
Sales Tax / VAT etc.	2013-14	63
State Excise	2013-14	10
Stamp Duty and Registration Fee	2013-14	4
Motor Vehicle Tax	2013-14	1
Land Revenue	2013-14	9
<b>Total</b>		<b>87</b>

#### **1.6.4 Response of the Departments to the draft audit paragraphs**

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries / Secretaries of the concerned Departments, drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

34 draft paragraphs and one performance audit were sent to the Principal Secretaries/ Secretaries of the respective Departments by name between July 2014 and October 2014. The Principal Secretaries/ Secretaries of the Departments did not send replies to any draft paragraphs including performance audit despite issue of reminders and the same have been included in this Report without the response of the Departments.

#### **1.6.5 Follow up on the Audit Reports- summarised position**

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the Departments shall initiate action on the audit paragraphs and the action taken/ explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. 234 paragraphs (including performance audit) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Andhra Pradesh for the years ended 31 March 2008, 2009, 2010, 2011 and 2012 were placed before the State Legislative Assembly between September 2009 to June 2013. The action taken/ explanatory notes from the concerned Departments on these paragraphs were received in respect of 65 paragraphs only with average delay of 18 months, 11 months and 14 months in respect of Audit Reports for the years ended 31 March 2008, 2009 and 2010 respectively. Action taken/explanatory notes in respect of

220 paragraphs from 13 departments (Commercial Taxes, Excise, Land Revenue, Transport, Registration, Industries & Commerce, Energy, Forest, Co-operation, Finance, Irrigation, Municipal Administration and General Administration) had not been received for the Audit Reports from year ended March 2001 to March 2012 so far (October 2014).

### 1.7 Analysis of the mechanism for dealing with the issues raised by Audit

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 performance audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.7.1 to 1.7.2 discuss the performance of the Mines & Geology Department under revenue head 0853 and cases detected in the course of local audit during the last ten years and also the cases included in the Audit Reports for the years 2003-04 to 2012-13.

#### 1.7.1 Position of Inspection Reports

The summarised position of the inspection reports issued during the last 10 years, paragraphs included in these reports and their status as on 31 March 2014 are tabulated in **Table - 1.7.1** below.

**Table 1.7.1**  
**Position of Inspection Reports**

(₹ in crore)

Sl. No.	Year	Opening Balance			Additions during the year			Clearance during the year			Closing balance during the year		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1.	2003-04	92	153	864.70	20	34	296.33	2	6	179.77	110	181	981.26
2.	2004-05	110	181	981.26	35	68	554.35	1	12	2.80	144	237	1532.81
3.	2005-06	144	237	1532.81	18	25	19.96	2	5	0.10	160	257	1552.66
4.	2006-07	160	257	1552.66	27	35	39.59	2	2	5.93	185	290	1586.32
5.	2007-08	185	290	1586.32	15	17	7.59	3	5	1.71	197	302	1592.20
6.	2008-09	197	302	1592.20	12	21	16.64	5	8	0.87	204	315	1607.97
7.	2009-10	204	315	1607.97	34	63	84.83	3	4	0.06	235	374	1692.73
8.	2010-11	235	374	1692.73	30	60	61.64	18	42	25.04	247	392	1729.33
9. & 10.	2011-12 & 2012-13	247	392	1729.33	0	1	22.62	0	0	0	247	393	1751.95

The Government arranges Audit Committee meetings between the Department and AG's office to settle the old paragraphs. As would be evident from the above table, against 92 outstanding IRs with 153 paragraphs as on start of 2003-04, the number of outstanding IRs increased to 247 with 392 paragraphs at the end of 2012-13. This is indicative of the fact that adequate steps were not taken by the Department in this regard resulting in increase of the outstanding IRs and paragraphs.

## 1.7.2 Recovery of accepted cases

The position of paragraphs included in the Audit Reports of the last 10 years, those accepted by the Department and the amount recovered are mentioned in **Table 1.7.2**.

**Table 1.7.2**

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted including money value	Money value of accepted paragraphs	Amount recovered during the year	Cumulative position of recovery of accepted cases as of 31 March 2012
2003-04	2	3.20	1	2.70	0.26	0.26
2004-05	1	183.55	1	1.15	Nil	Nil
2005-06	4	3.44	4	1.35	0.27	0.27
2006-07	2	1.33	1	1.16	Nil	Nil
2007-08	2	0.87	2	0.83	Nil	Nil
2008-09	5	3.81	5	3.63	0.02	0.02
2009-10	6	69.82	5	69.45	Nil	Nil
2010-11	2	2.71	2	0.47	Nil	Nil
2011-12*	0	NA	NA	NA	NA	NA
2012-13	1	22.62	1	16.09	0.82	0.82

\* Since no paragraph in respect of the Department of Mines and Geology was included in the audit report of that year, remaining columns are Not Applicable (NA).

It is evident from the above table that during the last ten years recovery even in accepted cases was Nil. The recovery of accepted cases was to be pursued as arrears recoverable from the concerned parties. The Department replied that ADM&Gs have finalised the MRAs and the same are sent to the concerned DDM&Gs for approval. However, the Department did not furnish any data. The Department may take immediate action to pursue and monitor prompt recovery of the dues involved in accepted cases.

## 1.8 Action taken on the recommendations accepted by the Department/Government

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

The following reviews on the Departments of Commercial taxes, Land Revenue, Mines & Geology, Prohibition & Excise, Stamps & Registration and Transport, were featured in the last five years Reports. The details of recommendations and their status is given in **Table 1.8** below:

Table 1.8

Year of Report	Name of the PA	No. of recommendations	Status
2008-09	Citizen Friendly Services in Transport Department (CFST)	5	Action taken/ explanatory notes have been submitted by the Government. This para is however yet to be discussed by the Committee on Public Accounts.
	Transition from Andhra Pradesh General Sales Tax to Andhra Pradesh Value Added Tax	8	Action taken/ explanatory notes are yet to be submitted by the Government
2009-10	Functioning of the Prohibition and Excise Department	9	
2010-11	Taxation of works contracts under the APVAT Act	5	
	Cross verification of Declaration Forms used in Inter State Trade	7	
	Alienation of Government land and conversion of agricultural land for non-agricultural purposes	3	
2011-12	VAT Audits and Refunds	3	
2012-13	Functioning of the Directorate of Mines & Geology	6	
	Functioning of Registration and Stamps Department including Information Technology (IT) Audit of CARD in Andhra Pradesh	6	

### **1.9 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 the 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, factors of the tax administration, audit coverage and its impact during past five years etc.

There were a total of 2270 auditable units, of which 280 units were planned and 279 units had been audited during the year 2013-14, which is 12.29 *per cent* of the total auditable units. Besides the compliance audit mentioned above, one performance audit was also taken up to examine the efficacy of the tax administration of revenue receipts.

## **1.10 Results of Audit**

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

Test check of the records of 279 units of Value Added Tax, State Excise, Motor Vehicles, Land Revenue, Stamp Duty and Registration Fees etc. conducted during the year 2013-14 showed under assessment/short-levy/ loss of revenue aggregating ₹ 2314.38 crore in 1784 cases. During the course of the year, the Departments concerned accepted under assessment and other deficiencies of ₹ 885.94 crore involved in 249 cases which were pointed out in audit during 2013-14. The Departments collected ₹ 1.96 crore in 117 cases during 2013-14, pertaining to the audit findings of previous years.

### **1.11 Coverage of this Report**

This Report contains 34 paragraphs (selected from the audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including one Performance audit on 'Public Service Delivery including Functioning of IT services (CFST) in Transport Department', involving financial effect of ₹ 1986.40 crore.

The Departments/ Government have accepted audit observations involving ₹ 885.85 crore out of which ₹ 0.63 crore had been recovered. These are discussed in succeeding Chapters II to VII.