

CHAPTER I
GENERAL

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1.1 Trend of revenue receipts

1.1.1 Tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2017-18, 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 in Table 1.1

Table 1.1
Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2013-14	2014-15	2015-16	2016-17	2017-18
1.	Revenue raised by the State Government					
	• Tax revenue	73,718.11	78,656.54	80,476.08	85,941.40	93,736.60
	• Non-tax revenue	9,343.27	8,350.60	8,918.31	9,913.76	10,764.01
	Total	83,061.38	87,007.14	89,394.39	95,855.16	1,04,500.61
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	15,852.76	16,824.03	20,353.86	24,537.77	27,099.71 ¹
	• Grants-in-aid	9,122.28	18,589.27	19,259.62	19,838.20	14,679.44
	Total	24,975.04	35,413.30	39,613.48	44,375.97	41,779.15
3.	Total revenue receipts of the State Government (1 + 2)	1,08,036.42	1,22,420.44	1,29,007.87	1,40,231.13	1,46,279.76
4.	Percentage of 1 to 3	77	71	69	68	71

Source: Finance Accounts of Government of Tamil Nadu

During the year 2017-18, the revenue raised by the State Government (₹ 1,04,500.61 crore) was 71 per cent of the total revenue receipts as against 68 per cent in the preceding year. The remaining 29 per cent (₹ 41,779.15 crore) of the receipts during 2017-18 was from the Government of India.

¹ For details please see Statement No. 14 – Detailed statements of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2017-18. 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 2013-14 to 2017-18.

Table 1.2
Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+) or decrease (-) in 2017-18 over 2016-17
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1	Goods and Services Tax	-	-	-	-	-	-	-	-	24,589.31		*
2.	Sales tax/VAT	52,826.74	53,532.17	65,202.06	57,190.80	68,874.57	57,522.03	64,835.04	63,233.58	73,959.25	46,356.15	*
3.	State Excise	14,469.87	5,034.91	6,483.04	5,731.18	7,296.67	5,836.02	6,636.08	6,248.16	6,902.91	5,815.30	(-) 6.93
4.	Stamp Duty and Registration Fee	9,874.22	8,251.25	10,470.18	8,362.33	10,385.29	8,721.45	9,858.17	7,236.65	8,219.52	9,194.63	(+) 27.06
5.	Taxes on Vehicles	4,881.15	3,683.58	5,147.14	3,828.95	4,882.54	4,233.39	4,793.91	4,854.29	5,418.03	5,362.63	(+) 10.47
6.	Land Revenue	112.38	272.83	171.57	170.54	203.41	257.53	315.27	153.40	354.46	152.30	(-) 0.72
7.	Taxes on immovable property other than agricultural land (urban land tax)	18.09	11.52	18.09	10.06	18.09	7.91	18.09	10.20	18.09	8.36	(-) 18.04
8.	Others ²	3,882.94	2,931.85	4,343.27	3,362.68	3,968.54	3,897.75	4,235.30	4,205.12	4,717.87	2,257.92	(-) 46.31
	Total	86,065.39	73,718.11	91,835.35	78,656.54	95,629.11	80,476.08	90,691.86	85,941.40	99,590.13	93,736.60	

*New scheme of taxation i.e. Goods and Services Tax came into force with effect from 1 July 2017. Petroleum products and Liquor for human consumption which are not subsumed under Goods and Service Taxes are taxed under Value Added Tax.

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variation in receipts.

Stamp Duty and Registration Fee: The overall increase in revenue was mainly due to huge increase in 'Stamps and Registration' under (i) other Non-Judicial stamps, (ii) Un-stamped or insufficiently stamped documents and (iii) Fees for Registering documents. Also revision of Registration fees from one per cent to four per cent and reduction of Guideline value by 33 per cent resulted in increase in number of registration transactions during the year.

Taxes on Vehicles: The increase was mainly due to increase in fees for Registration of Licenses, Badges, Permits, Fitness Certificates etc., under the "Tamil Nadu Motor Vehicles Taxation Act 1974".

² 'Others' represent tax receipts pertaining to heads other than those mentioned above.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2013-14 to 2017-18.

Table 1.3
Details of Non-tax revenue raised

Sl. No.	Head of revenue	2013-14		2014-15		2015-16		2016-17		2017-18		Percentage of increase (+) or decrease (-) in 2017-18 over 2016-17
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	1,548.98	3,422.77	2,240.28	2,588.83	2,750.67	3,093.50	2,874.85	4,503.90	3,816.36	5,357.15	(+) 18.94
2.	Crop Husbandry	120.04	213.77	93.16	150.00	145.06	44.93	128.46	56.94	123.40	76.47	(+) 34.30
3.	Forestry and Wildlife	98.65	193.87	44.86	141.30	143.02	85.52	158.59	34.22	161.72	57.51	(+) 68.06
4.	Non-Ferrous Mining and Metallurgical industries	1,078.64	933.28	1,094.08	976.59	1,191.80	981.12	1,180.99	983.90	1,186.10	1,146.11	(+) 16.49
5.	Education, Sports, Art and culture	1,565.12	1,693.29	1,606.33	1,932.01	1,985.40	1,355.04	2,404.56	1,195.23	1,606.50	1,153.45	(-) 3.50
6.	Other receipts ³	2,353.66	2,886.29	3,005.27	2,561.87	2,855.55	3,358.20	2,976.50	3,139.57	5,423.92	2,973.32	(-) 5.30
	Total	6,765.09	9,343.27	8,083.98	8,350.60	9,071.50	8,918.31	9,723.95	9,913.76	12,318.00	10,764.01	

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variation in receipts.

Interest receipts, dividends and profits: The overall increase in Revenue was mainly due to increase as interest on Ways and Means Advances to Statutory Corporations, Boards and Government Companies.

Crop Husbandry: The overall increase in Revenue was due to increase in receipts under Bacterial Culture Packets and Vegetable Seed Production.

Forestry and Wildlife: The overall increase in Revenue was mainly due to Receipts from sale of Teak and Miscellaneous receipts.

³ 'Other receipts' represent non-tax receipts pertaining to heads other than those mentioned above.

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2018, on some principal heads of revenue amounted to ₹ 34,512.45 crore, of which ₹ 13,508.92 crore was outstanding for more than five years, as detailed in Table 1.4.

Table 1.4
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2018	Amount outstanding for more than five years as on 31 March 2018	Replies of Department
1.	Sales Tax/ VAT	28,937.94	10,079.08	Recovery of ₹ 6,967.00 crore was being done through issue of Recovery Certificates through auction of property. Recovery of ₹ 9,255.38 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 18.79 crore. Recovery of ₹ 2,915.84 crore was held up due to rectification / review application. Collection of ₹ 553.93 crore was held up due to persons becoming insolvent. Amount of ₹ 562.34 crore was likely to be written off. Remaining arrears of ₹ 8,664.66 crore were at various stages of recovery.
2.	Stamp Duty and Registration Fee	395.09	311.03	Recovery of ₹ 395.03 crore was being done by Recovery Certificates and collection of ₹ 0.06 crore stayed by High Court and other judicial authorities.
3.	State Excise	34.31	34.31	Recovery of ₹ 15.13 crore was being done by Recovery Certificates. Recovery of ₹ 0.63 crore was stayed by High Court and other judicial authorities. Recovery of ₹ 4.29 crore was covered by rectification / review application and persons becoming insolvent. Amount of ₹ 0.27 crore was likely to be written off. Arrears of ₹ 13.99 crore were at various stages of collection.
4.	Taxes on vehicles	1.45	0.00	Demands of ₹ 1.23 crore were being done by Recovery Certificates. An amount of ₹ 0.22 crore was stayed by High Court and other judicial authorities.
5.	Non-Ferrous Mining and Metallurgical industries	4,399.48	2,586.52	Demands of ₹ 1,433.83 crore were covered by Recovery Certificates, stayed by High Court, other judicial authorities and Government. Remaining arrears of ₹ 2,965.65 crore were at various stages of recovery.
6.	Electricity Taxes	744.18	497.98	Recovery of ₹ 39.17 crore was being done through issue of Recovery Certificates through auction of property. Recovery of ₹ 533.72 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 26.78 crore. Collection of ₹ 9.46 crore was held up due to persons becoming insolvent. Remaining arrears of ₹ 135.05 crore were at various stages of recovery.
	Total	34,512.45	13,508.92	

Source: Replies of concerned Departments

The table further indicates that the amount of uncollected revenue as on 31 March 2018 was about one-third of the total revenue raised by the Government during the year 2017-18.

1.3 Arrears in assessments

As per the provisions of the Tamil Nadu Value Added Tax (TNVAT) Act, the returns filed by the dealers for the year shall be deemed to have been assessed as on 31 October of the succeeding year. The TNVAT Act provides for selection of cases which were deemed to have been assessed for detailed scrutiny. As on 1 April 2017, 30,350 assessments were pending completion. The Department stated that during the year 53,514 cases were selected for scrutiny. Department further stated that out of 83,864 assessments, 22,179 assessments were completed during the year leaving behind 61,685 assessments pending for completion. Department may fix a time plan to complete the assessments early.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Commercial Taxes and Home (Transport) Departments, cases finalised and the demands for additional tax raised are given in Table 1.5.

Table 1.5
Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2017	Cases detected during 2017-18	Total	Number of cases in which assessment / investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2018
					Number of cases	Amount of demand (₹ in crore)	
1.	Sales Tax / VAT	9,045	10,608	19,653	10,692	2,282.47	8,961
2.	Taxes on Vehicles	75	84	159	84	0.95	75

Source: Replies of concerned Departments

The number of cases pending at the end of the year had decreased when compared to that at the beginning of the year in respect of Sales Tax / VAT.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2017-18, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2017-18 are given in Table 1.6.

Table 1.6
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax / VAT		Taxes on vehicles	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	25,809	597.30	31	0.09
2.	Claims received during the year	6,468	489.41	243	0.83
3.	Refunds made during the year	15,004	591.78	259	0.86
4.	Balance outstanding at the end of the year	17,273	494.93	15	0.06

Source: Replies of concerned Departments

In addition, refund of ₹ 319 crore was granted under Goods and Services Tax. The TNVAT Act provides for payment of interest, at the rate of half *per cent* per month, if the excess amount is not refunded to the dealer within 90 days from the date of the order of assessment or revision of assessment. Due to slow pace of disposal of refund cases, Government may incur liability for payment of interest.

1.6 Response of the Departments / Government towards audit

The Accountant General (Economic and Revenue Sector Audit), Tamil Nadu (AG) 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 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 AG within one month from the date of issue of the IRs. Serious financial irregularities are referred to the heads of the Departments and the Government.

IRs issued up to 31 December 2017 disclosed that 29,373 paragraphs, involving ₹ 5,934.99 crore relating to 5,681 IRs, remained outstanding at the end of June 2018 as mentioned below along with the corresponding figures for the preceding two years in Tables 1.7 and 1.8.

Table 1.7
Details of pending IRs

Particulars	June 2016	June 2017	June 2018
Number of IRs pending for settlement	6,830	5,692	5,681
Number of outstanding audit observations	28,599	29,696	29,373
Amount of revenue involved (₹ in crore)	4,624.91	5,792.97	5,934.99

Source: As per data maintained in office of the AG(E&RSA), Tamil Nadu, Chennai

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2018 and the amounts involved are mentioned in Table 1.8.

Table 1.8
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 and Registration	Sales tax / Value added tax	1,633	17,801	3,050.64
		Stamp duty and registration fee	1,791	5,712	1,841.78
		Entry tax	5	12	0.13
		Entertainment tax	28	31	0.30
		Luxury tax	19	33	0.05
		Betting tax	11	22	0.09
		Expenditure audit	9	29	0.01
2.	Revenue	Land revenue	1,085	3,345	309.24
		Urban land tax	118	235	15.71
3.	Home (Transport)	Taxes on vehicles	448	1,176	51.65
4.	Home (Prohibition and Excise)	State excise	198	307	298.55
5.	Industries	Mines and minerals	227	464	209.48
6.	Energy	Electricity tax	109	206	157.36
Total			5,681	29,373	5,934.99

Source: As per data maintained in office of the AG(E&RSA), Tamil Nadu, Chennai

The large pendency of the IRs, due to non-receipt of the replies is indicative of failure by heads of offices and departments to initiate action to rectify defects, omissions and irregularities pointed out by the AG through the IRs.

1.6.2 Departmental Audit Committee Meetings

The Government has set up Audit Committees (during various periods) to monitor and expedite the progress of the settlement of paragraphs in the IRs. Three meetings of Departmental Audit Committee were held with the Commercial Taxes, Registration and Motor Vehicle Tax Departments during the year 2017-18. As a follow-up of the meetings, 2,354 paragraphs involving ₹ 119.25 crore were settled.

1.6.3 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 / offices one month

before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2017-18, 2,10,109 sales tax assessment records were called for in 83 offices, out of which 35,262 records in 76 offices were not made available for audit.

The delay in production of records for audit would render the audit scrutiny ineffective, as rectification of under-assessment, if any, might become time barred, 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.

The non-production of assessment records is a serious lapse on the part of the executive authorities thereby defeating the very purpose of audit as it also hinders the discharge of duties of the Comptroller and Auditor General of India as enshrined in the Constitution.

1.6.4 Response of the Departments to draft Audit Paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by AG to the Principal Secretaries of the concerned Department, drawing their attention to audit findings and requesting them 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.

Twenty two draft paragraphs (including one Performance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2018 were forwarded to the Principal Secretaries of the respective Departments between July 2018 and February 2019. However, replies to 21 paragraphs were not received (February 2019). These paragraphs have been included in the Report without the response of the Principal Secretary of the Departments concerned. However, replies of Assessing Authorities have been included in the paragraphs.

1.6.5 Follow-up of Audit Reports

With a view to ensure accountability of the executive in respect of the issues dealt with in the Audit Reports, the Public Accounts Committee (PAC) laid down in 1997 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 two months of tabling the Report, for consideration of the Committee. In spite of these instructions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. We observed that 220 paragraphs included in the Reports of the Comptroller and Auditor General of India on the Revenue Receipts of the Government of Tamil Nadu upto the year ended March 2017 were pending discussion by PAC. Out of the above, the Departments have not furnished explanatory notes in respect of 190 paragraphs. Review of the outstanding action taken notes (ATNs) as of 31 January 2019 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 1,621 recommendations pertaining to audit paragraphs discussed by PAC. Out of the pending 1,621 recommendations, even the first ATN had not been received in respect of 1,057 recommendations, the earliest of which related to the Audit Report for the year 1986-87.

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 IRs / 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.

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to Home Department relating to State Excise during the last 10 years, paragraphs included in these reports and their status as on 31 March 2018 are tabulated in Table 1.9.

Table 1.9
Position of Inspection Reports

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value	IRs	Paras	Money value
2008-09	111	141	158.47	17	37	1.82	0	0	0	128	178	160.29
2009-10	128	178	160.29	33	55	9.66	3	3	44.63	158	230	125.32
2010-11	158	230	125.32	12	17	0.70	3	10	9.08	167	237	116.94
2011-12	167	237	116.94	24	36	1.55	12	14	0.47	179	259	118.02
2012-13	179	259	118.02	10	17	1.04	4	8	0.14	185	268	118.92
2013-14	185	268	118.92	23	56	3.12	4	15	50.37	204	309	71.67
2014-15	204	309	71.67	16	58	0.25	4	9	0.17	216	358	71.75
2015-16	216	358	71.75	16	37	1.10	2	14	0.12	230	381	72.73
2016-17	230	381	72.73	16	42	228.36	18	37	0.27	228	386	300.82
2017-18	228	386	300.82	0	0	0	27	70	2.25	201	316	298.57

Source: As per data maintained in office of the AG(E&RSA), Tamil Nadu, Chennai

As against 111 IRs involving 141 paragraphs which were pending at the beginning of 2008-09, the number at the end of 2017-18 had increased to 201 IRs involving 316 paragraphs. This indicates that response to the local audit reports was poor and adequate steps needs to be taken by the department to clear the outstanding IRs and paragraphs.

1.7.2 Recovery of accepted cases

The Department accepted audit observations involving ₹ 8.21 crore and recovered ₹ 0.18 crore relating to four draft paragraphs and one Performance Audit Report (included in CAG's Reports of last ten years on the Revenue Sector).

1.8 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 2017-18, the audit universe comprised 1,467 auditable units, of which 241 units were planned and 242 units were audited during the year 2017-18 i.e., 16.50 *per cent* of the total auditable units. The details are shown in Annexure 1.

1.9 Results of audit

Position of local audit conducted during the year

The records of 104 commercial taxes offices out of 443 auditable units, 21 offices out of 93 auditable units relating to motor vehicles tax, 18 registration offices out of 599 auditable units relating to stamp duty and registration fee, 17 district offices out of 31 auditable units relating to mines and minerals and 82 offices out of 163 auditable units relating to land revenue were test checked during 2017-18 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 4,432.44 crore were noticed in 3,544 cases. During the year, the Departments accepted and recovered under-assessment and other deficiencies in 905 cases involving ₹ 207.63 crore. Out of these, 153 cases involving ₹ 1.80 crore were pointed out in 2017-18, and 752 cases involving ₹ 205.83 crore pertained to objections raised in earlier years.

1.10 Scope of this Report

This Report contains paragraphs including one Performance Audit relating to Mineral Wealth Management in Geology and Mining Department and other audit observations involving financial effect of ₹ 3,984.52 crore. The Departments / Government accepted audit observations involving ₹ 93.78 crore of which, ₹ 1.21 crore had been recovered / adjusted by the Departments. These are discussed in succeeding Chapters II to V. The audit observations discussed in the subsequent paragraphs are observed from the test check of records in the selected offices. Most of the observations are of a nature that may reflect similar deficiencies/under assessments in other offices, not test checked by Audit. Department may, therefore, carry out internal audit in these offices to ensure that such irregularities and deficiencies, if any, stand rectified.