

PART-A
REVENUE SECTOR

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 2018-19, 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 No.1.1.

Table No. 1.1: Trend of revenue receipts

(₹ in crore)

Sl. No.	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19
1.	Revenue raised by the State Government					
	• Tax revenue	78,656.54	80,476.08	85,941.40	93,736.60	1,05,549.90
	• Non-tax revenue	8,350.60	8,918.31	9,913.76	10,764.01	14,200.02
	Total	87,007.14	89,394.39	95,855.16	1,04,500.61	1,19,749.92
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	16,824.03	20,353.86	24,537.77	27,099.71	30,623.03 ¹
	• Grants-in-aid	18,589.27	19,259.62	19,838.20	14,679.44	23,368.21
	Total	35,413.30	39,613.48	44,375.97	41,779.15	53,991.24
3.	Total revenue receipts of the State Government (1 + 2)	1,22,420.44	1,29,007.87	1,40,231.13	1,46,279.76	1,73,741.16
4.	Percentage of 1 to 3	71	69	68	71	69

(Source: Finance Accounts of Government of Tamil Nadu)

During the year 2018-19, the revenue raised by the State Government (₹ 1,19,749.92 crore) was 69 per cent of the total revenue receipts as against 71 per cent in the preceding year. The remaining 31 per cent (₹ 53,991.24 crore) of the receipts during 2018-19 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 2018-19. Figures under various heads relating to '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 2014-15 to 2018-19.

Table No. 1.2: Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+) or decrease (-) in 2018-19 over 2017-18
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1	Goods and Services Tax	-	-	-	-	-	-	-	24,589.31	29,748.45	38,533.09	(+) 56.71
2.	Sales tax/VAT	65,202.06	57,190.80	68,874.57	57,522.03	64,835.04	63,233.58	73,959.25	46,356.15	44,427.04	42,701.07	(-) 7.88
3.	State Excise	6,483.04	5,731.18	7,296.67	5,836.02	6,636.08	6,248.16	6,902.91	5,815.30	6,997.83	6,863.12	(+) 18.02
4.	Stamp Duty and Registration Fee	10,470.18	8,362.33	10,385.29	8,721.45	9,858.17	7,236.65	8,219.52	9,194.63	10,935.67	11,066.18	(+) 20.35
5.	Taxes on Vehicles	5,147.14	3,828.95	4,882.54	4,233.39	4,793.91	4,854.29	5,418.03	5,362.63	6,211.75	5,572.80	(+) 3.92
6.	Land Revenue	171.57	170.54	203.41	257.53	315.27	153.40	354.46	152.30	282.39	177.99	(+) 16.87
7.	Taxes on immovable property other than agricultural land (urban land tax)	18.09	10.06	18.09	7.91	18.09	10.20	18.09	8.36	13.00	10.34	(+) 23.68
8.	Others ²	4,343.27	3,362.68	3,968.54	3,897.75	4,235.30	4,205.12	4,717.87	2,257.92	1,378.38	625.31	(-) 72.31
	Total	91,835.35	78,656.54	95,629.11	80,476.08	90,691.86	85,941.40	99,590.13	93,736.60	99,994.51	1,05,549.90	

(Source: Finance Accounts of Government of Tamil Nadu)

The following are the reasons for variation in receipts.

State Goods and Services Tax: The overall increase in revenue was mainly due to higher receipts of State Goods and Services Tax during the year.

State Excise: Reasons for increase in revenue was mainly due to huge increase in Receipts under 'Duty on Wines and Spirits Manufactured in India including Medicated Wines'.

Stamp Duty and Registration Fee: The overall increase in revenue was mainly due to huge increase in 'Stamps and Registration' under (i) Fees for Registering documents (ii) Un-stamped or insufficiently stamped documents and (iii) Other Non-Judicial stamps. 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.

² 'Others' represent tax receipts pertaining to receipts under (i) Agricultural Income, (ii) Goods and Passengers, (iii) Electricity and (iv) Commodity and Service.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2014-15 to 2018-19.

Table No. 1.3: Details of Non-tax revenue raised

Sl. No.	Head of revenue	2014-15		2015-16		2016-17		2017-18		2018-19		Percentage of increase (+) or decrease (-) in 2018-19 over 2017-18
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	2,240.28	2,588.83	2,750.67	3,093.50	2,874.85	4,503.90	3,816.36	5,357.15	4,086.26	7,031.19	(+) 31.25
2.	Crop Husbandry	93.16	150.00	145.06	44.93	128.46	56.94	123.40	76.47	59.82	185.06	(+) 142.00
3.	Forestry and Wildlife	44.86	141.30	143.02	85.52	158.59	34.22	161.72	57.51	103.07	145.46	(+) 152.93
4.	Non-Ferrous Mining and Metallurgical industries	1,094.08	976.59	1,191.80	981.12	1,180.99	983.90	1,186.10	1,146.11	1,452.27	1,057.45	(-) 7.74
5.	Education, Sports, Art and culture	1,606.33	1,932.01	1,985.40	1,355.04	2,404.56	1,195.23	1,606.50	1,153.45	1,448.99	1,592.36	(+) 38.05
6.	Other receipts ³	3,005.27	2,561.87	2,855.55	3,358.20	2,976.50	3,139.57	5,423.92	2,973.32	4,150.70	4,188.50	(+) 40.87
	Total	8,083.98	8,350.60	9,071.50	8,918.31	9,723.95	9,913.76	12,318.00	10,764.01	11,301.11	14,200.02	

(Source: Finance Accounts of Government of Tamil Nadu)

The following are the reasons for variation in receipts.

Crop Husbandry: The overall increase in Revenue was mainly due to increase in receipts under 'Integrated Coconut Development'.

Forestry and Wildlife: The overall increase in Revenue was mainly due to increase in Receipts under (i) Other Minor Forest Produce and (ii) Miscellaneous Receipts.

Education, Sports, Art and culture: The overall increase in Revenue was due to increase in Receipts under (i) Other receipts, (ii) Reimbursement of Expenditure under the Rashtriya Madhayamik Shiksha Abhiyan and (iii) Receipts for payment of Teachers in Govt. High Schools and Higher Secondary Schools under Sarva Shiksha Abhiyan Scheme.

³ 'Other receipts' represent non-tax receipts pertaining to heads (i) Police; (ii) Miscellaneous General Services; (iii) Medical and Public Health; and (iv) Urban Development etc.,

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2019, on some principal heads of revenue amounted to ₹ 36,449.63 crore, of which ₹ 12,740.37 crore was outstanding for more than five years, as detailed in Table No. 1.4.

Table No. 1.4: Arrears of revenue

(₹ in crore)				
Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2019	Amount outstanding for more than five years as on 31 March 2019	Replies of Department
1.	Sales Tax/ VAT	30,321.16	9,138.73	Recovery of ₹ 7,309.53 crore was covered by Recovery Certificates. Recovery of ₹ 10,603.16 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 21.20 crore. Collection of ₹ 53.49 crore was held up due to persons becoming insolvent. Amount of ₹ 371.73 crore was likely to be written off. Remaining arrears of ₹ 11,962.05 crore were at various stages of recovery.
2.	Stamp Duty and Registration Fee	382.68	318.77	Recovery of ₹ 382.65 crore was covered by Recovery Certificates and collection of ₹ 0.03 crore stayed by High Court and other judicial authorities.
3.	State Excise	33.63	33.63	Recovery of ₹ 19.10 crore was being done by Recovery Certificates. Recovery of ₹ 0.69 crore was stayed by High Court and other judicial authorities. Recovery of ₹ 0.55 crore was covered by rectification / review application and persons becoming insolvent. Amount of ₹ 5.18 crore was likely to be written off. Arrears of ₹ 8.11 crore were at various stages of collection.
4.	Taxes on vehicles	0.53	0.00	Demands of ₹ 0.31 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	4,866.14	2,586.52	Recovery of ₹ 391.17 crore was covered by Recovery Certificates. Recovery of ₹ 3,183.76 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 4.40 crore. Recovery of ₹ 8.89 crore was covered by rectification / review application and persons becoming insolvent. Amount of ₹ 6.13 crore was likely to be written off. Remaining arrears of ₹ 1,271.79 crore were at various stages of recovery.
6.	Electricity Taxes	662.27	538.34	Recovery of ₹ 166.86 crore was being done through issue of Recovery Certificates through auction of property. Recovery of ₹ 393.68 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 31.31 crore. Collection of ₹ 9.46 crore was held up due to persons becoming insolvent. Remaining arrears of ₹ 60.96 crore were at various stages of recovery.
7.	Urban Land Tax	183.22	124.38	Recovery of ₹ 17.09 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 3.75 crore. Remaining arrears of ₹ 162.38 crore were at various stages of recovery.
	Total	36,449.63	12,740.37	

(Source: Replies of concerned Departments)

The table further indicates that the amount of uncollected revenue as on 31 March 2019 was about 30 *per cent* of the total revenue raised by the Government during the year 2018-19. Necessary arrangements are required to be taken to collect the arrears in a time bound manner.

1.3 Arrears in assessments

As per the provisions of the Tamil Nadu Value Added Tax Act, 2006 (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 2018, 61,685 TNVAT assessments were pending completion. The Department stated that during the year 11,623 cases were selected for scrutiny. Department further stated that out of 73,308 assessments, 18,872 assessments were completed during the year and 54,436 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 No. 1.5**.

Table No. 1.5: Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2018	Cases detected during 2018-19	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 2019
					Number of cases	Amount of demand (₹ in crore)	
1.	Sales Tax / VAT	8,960	2,086	11,046	5,845	5,056.37	5,201
2.	Taxes on Vehicles	75	Nil	75	75	0.11	NIL

(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 2018-19, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2018-19 relating to Commercial Taxes

Department (Value Added Tax) and Transport Department (Taxes on vehicles) are given in **Table No. 1.6**.

Table No.1.6: Details of pendency of refund cases

Sl. No.	Particulars	Value Added Tax		Taxes on vehicles	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	17,273	494.93	15	0.06
2.	Claims received during the year	1,513	257.43	195	0.65
3.	Refunds made during the year	15,769	622.18	183	0.69
4.	Balance outstanding at the end of the year	3,017	130.18	27	0.02

(₹ in crore)

(Source: Replies of concerned Departments)

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. In case of delay in disposal of refund cases, Government may have to bear liability for payment of interest.

1.6 Response of the Departments / Government towards audit

The Accountant General (Economic and Revenue Sector Audit) (now Accountant General (Audit-II), Tamil Nadu and Puducherry (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 2018 disclosed that 32,600 paragraphs, involving ₹ 6,225.78 crore relating to 5,784 IRs, remained outstanding at the end of June 2019 as mentioned below along with the corresponding figures for the preceding two years in Table 1.7.

Table No. 1.7: Details of pending IRs

Particulars	June 2017	June 2018	June 2019
Number of IRs pending for settlement	5,692	5,681	5,784
Number of outstanding audit observations	29,696	29,373	32,600
Amount of revenue involved (₹ in crore)	5,792.97	5,934.99	6,225.78

(Source: As per data maintained in office of the AG(Audit - II), Tamil Nadu and Puducherry, Chennai)

1.6.1 Department-wise details of the Inspection Reports and audit observations

The Department-wise details of the IRs and audit observations issued up to 31 December 2018 and outstanding as on 30 June 2019 and the amounts involved are mentioned in Table No. 1.8.

Table No. 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	1,779	20,260	3,267.63
		Stamp duty and registration fee	1,798	5,728	1,843.05
2.	Revenue	Land revenue	1,145	4,215	305.93
		Urban land tax	116	229	15.68
3.	Home (Transport)	Taxes on vehicles	407	1,069	53.68
4.	Home (Prohibition and Excise)	State excise	189	281	298.24
5.	Industries	Mines and minerals	242	621	284.22
6.	Energy	Electricity tax	108	197	157.35
Total			5,784	32,600	6,225.78

(Source: As per data maintained in office of the AG(Audit - II), Tamil Nadu and Puducherry, 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. In the meeting, the Secretaries of the Departments directed the Head of the Departments to take immediate action to clear the outstanding audit observations. It is recommended that periodical meetings are conducted by all the Departments so that the outstanding audit observations are 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 2018-19, 12,560 assessment records in 88 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.

Eighteen 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 2019 were forwarded to the Principal Secretaries of the respective Departments between November 2019 and April 2020. However, replies to 16 draft paragraphs were not received (October 2020). 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 165 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 87 paragraphs. Review of the outstanding action taken notes (ATNs) as of 31 October 2020 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 1,592 recommendations pertaining to 387 audit paragraphs discussed by PAC. Out of the pending 1,592 recommendations,

even the first ATN had not been received in respect of 763 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 Energy Department relating to Electricity Taxes during the last 10 years, paragraphs included in these reports and their status as on 31 March 2019 are tabulated in **Table No. 1.9**.

Table No. 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
2009-10	67	129	39.48	18	39	0.21	7	28	0.11	78	140	39.58
2010-11	78	140	39.58	16	34	224.53	27	57	5.23	67	117	258.88
2011-12	67	117	258.88	11	31	14.42	3	18	15.83	75	130	257.47
2012-13	75	130	257.47	12	31	81.71	1	13	12.31	86	148	326.87
2013-14	86	148	326.87	15	42	30.21	1	3	0	100	187	357.08
2014-15	100	187	357.08	12	33	6.49	0	22	3.89	112	198	359.68
2015-16	112	198	359.68	11	59	20.49	18	49	58.10	105	208	322.07
2016-17	105	208	322.07	8	28	8.74	0	5	0.04	113	231	330.77
2017-18	113	231	330.77	1	3	0.06	5	28	173.48	109	206	157.35
2018-19	109	206	157.35	2	9	0.01	0	5	0	111	210	157.36

(Source: As per data maintained in office of the AG(Audit - II), Tamil Nadu and Puducherry, Chennai)

As against 67 IRs involving 129 paragraphs which were pending at the beginning of 2009-10, the number at the end of 2018-19 had increased to 111 IRs involving 210 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

During the last 10 years, eight draft paragraphs involving ₹ 397.36 crore were included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu. The Department accepted seven audit observations involving ₹ 308.02 crore and recovered/adjusted ₹ 268.17 crore.

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 2018-19, the audit universe comprised 1,602 auditable offices, of which 213 offices were planned and 214 offices were audited i.e., 13 *per cent* of the total auditable offices. The details are shown in **Annexure 1**.

1.9 Results of audit

Position of local audit conducted during the year

The records of 150 offices out of 443 auditable offices relating to Commercial Taxes, 18 registration offices out of 599 auditable offices relating to stamp duty and registration fee, five offices out of 22 auditable offices relating to Motor Vehicles Maintenance, one office out of 77 auditable offices relating to State Excise, 10 out of 24 auditable offices relating to electricity tax and 30 offices out of 285 auditable offices relating to land revenue were test checked during 2018-19 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 1,950.11 crore were noticed in 4,328 cases. During the year, the Departments accepted and recovered under-assessment and other deficiencies in 719 cases involving ₹ 176.64 crore. Out of these, 308 cases involving ₹ 166.57 crore were pointed out in 2018-19, and 411 cases involving ₹ 10.07 crore pertained to observations raised in earlier years.

1.10 Scope of this Report

This part of the Report contains 18 paragraphs including one Performance Audit relating to Receipts under State Excise in Home (Prohibition and Excise) Department and other audit observations involving financial effect of ₹ 1,518.80 crore. The Departments / Government accepted audit observations involving ₹ 167.79 crore of which, ₹ 164.27 crore had been recovered / adjusted by the Departments. These are discussed in succeeding Chapters II to IV. 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.