

# Chapter I

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## General

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## 1.1 Introduction

This Report of the Comptroller and Auditor General of India (C&AG) relates to the matters arising from Compliance Audit of four major receipts dealt with by two departments (Revenue and Transport) during the period 2019-20 and 2020-21.

Compliance audit refers to the examination of transactions relating to expenditure, receipts as well as assets and liabilities of audited entities to examine and report on their compliance to the provisions of the Constitution of India as well as other applicable laws, rules, regulations and various orders and instructions issued by competent authorities. Compliance audit also includes an examination of the rules, regulations, orders and instructions for their legality, adequacy, transparency, propriety and prudence. The basic purpose of the Report is to bring the important results of Audit to the notice of the State Legislature. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The findings of audit are expected to enable the Executive to take corrective measures and also to frame policies and directives that will lead to improved financial management of the organisations, thus, contributing to better governance.

This chapter, in addition to explaining the planning and extent of audit, provides information on follow-up of previous Audit Reports.

## 1.2 Profile of Audited Entities

The Departments are headed by Special Chief Secretary / Principal Secretaries who are assisted by Commissioners and subordinate officers. A brief profile of two departments covered in this Report is discussed in *Appendix-1.1*.

A summary of the revenue realised (tax and non-tax revenue, the State's share of net proceeds of divisible Union taxes and duties assigned to it, Grants-in-aid received from the Government of India (GoI) during the years 2019-20 and 2020-21 and the corresponding figures for the preceding three years) by Government of Telangana is given in **Table-1.1**.

**Table-1.1: Trend of Revenue Receipts**

(₹ in crore)

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
<b>1</b>	<b>Revenue raised by the State Government</b>					
	Tax Revenue	48,407.73	56,519.81	64,674.06	67,597.49	66,650.37
	Non-tax Revenue	9,781.70	7,825.40	10,007.42	7,360.31	6,101.24
	<b>Total</b>	<b>58,189.43</b>	<b>64,345.21</b>	<b>74,681.48</b>	<b>74,957.80</b>	<b>72,751.61</b>
<b>2</b>	<b>Receipts from the Government of India</b>					
	Share of net proceeds of divisible Union taxes and duties	14,877.04	16,420.08	18,560.88	15,987.59	12,691.62
	Grants-in-Aid	9,751.90	8,058.80	8,177.79	11,598.42	15,471.13
	<b>Total</b>	<b>24,628.94</b>	<b>24,478.88</b>	<b>26,738.67</b>	<b>27,586.01</b>	<b>28,162.75</b>
<b>3</b>	<b>Total revenue receipts of State Government (1 + 2)</b>	<b>82,818.37</b>	<b>88,824.09</b>	<b>1,01,420.15</b>	<b>1,02,543.81</b>	<b>1,00,914.36</b>

Sl. No.	Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
4	Percentage of State's Own Revenue to Total Revenue Receipts	70	72	74	73	72

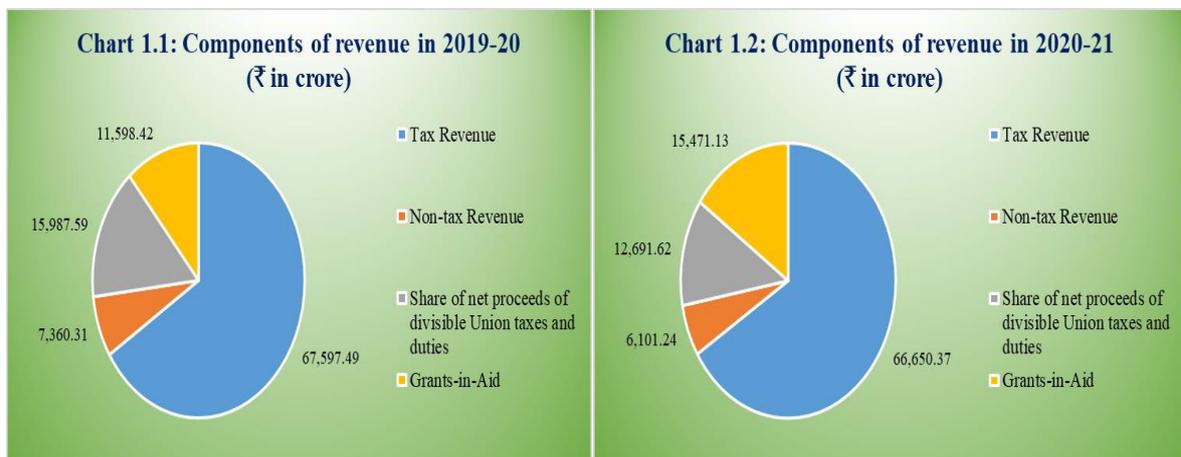
Source: Finance Accounts of Government of Telangana for relevant years

The State's performance in mobilisation of resources is assessed in terms of tax revenue and non-tax revenue excluding the State's share in Central taxes and Grants-in-aid, which are based on the recommendations of the Finance Commission.

As seen from the Table above, the tax revenue raised by the State has displayed an increase during the four-year period 2016-2020 (increased by 21 per cent in 2016-17; 17 per cent in 2017-18; 14 per cent in 2018-19 and 4.5 per cent in 2019-20 respectively) and registered a decrease of 1.4 per cent in 2020-21.

However, the non-tax revenue showed a mixed trend with a dip in 2017-18, increase in 2018-19, and decrease again in 2019-20 and 2020-21. The percentage of tax and non-tax revenue raised by the State Government to the total revenue of the State has been decreasing from 74 per cent in 2018-19 to 73 per cent in 2019-20 and 72 per cent in 2020-21.

The nature and composition of revenue receipts of the State during the years 2019-20 and 2020-21 are shown in **Chart-1.1** and **Chart 1.2** respectively.



### 1.2.1 Tax Revenue

Details of tax revenue raised *vis-à-vis* budget projections during the period 2016-17 to 2020-21 are given in **Table-1.2**.

**Table-1.2: Details of Tax Revenue raised**

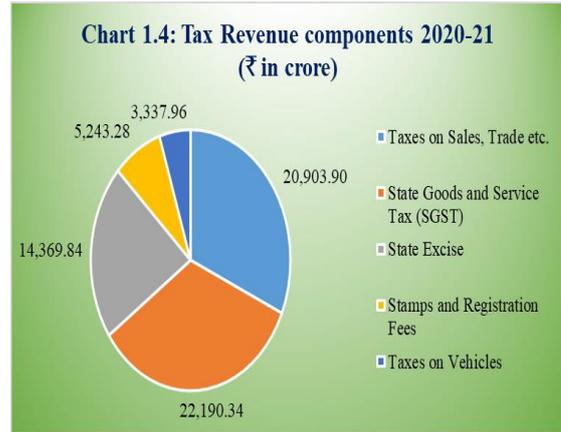
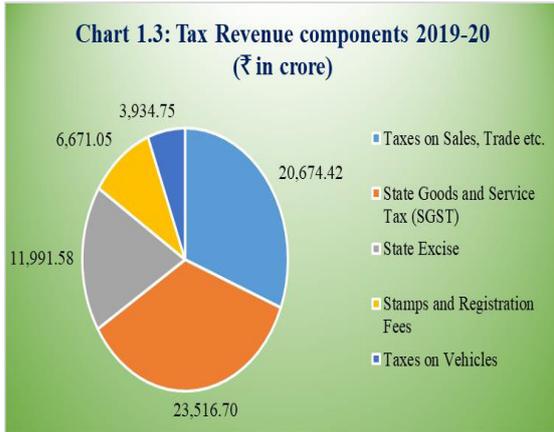
		(₹ in crore)					
Head of Revenue	Budget Estimates / Actuals	2016-17	2017-18	2018-19	2019-20	2020-21	Percentage of increase (+) / decrease (-) in 2020-21 over 2019-20
Taxes on Sales, Trade etc.	Budget Estimates	42,073.53	46,500.00	25,942.00	21,972.00	26,400.00	(+)20.15
	Actuals	34,234.69	25,106.48	20,290.50	20,674.42	20,903.90	(+)1.11
State Goods and Services Tax (SGST)	Budget Estimates	-	-	26,040.00	25,817.00	27,600.00	(+6.91)
	Actuals	-	13,072.91	23,840.18	23,516.70	22,190.34	(-)-5.64
State Excise	Budget Estimates	4,543.06	9,000.00	10,600.00	10,901.00	16,000.00	(+)46.78
	Actuals	5,580.71	9,421.33	10,637.56	11,991.58	14,369.84	(+)19.83
Stamp and Registration Fees	Budget Estimates	4,292.00	3,000.00	4,700.00	6,146.00	10,000.00	(+)62.71
	Actuals	3,821.66	4,202.46	5,344.04	6,671.05	5,243.28	(-)-21.40
Taxes on Vehicles	Budget Estimates	2,900.00	3,000.00	3,950.00	3,714.00	4,300.00	(+)15.78
	Actuals	3,394.16	3,589.48	3,761.94	3,934.75	3,337.96	(-)-15.17
Land Revenue	Budget Estimates	15.61	15.00	4.64	5.39	6.94	(+)28.76
	Actuals	6.70	4.12	0.42	0.99	0.50	(-)-49.49
Others <sup>2</sup>	Budget Estimates	1,045.71	1,104.00	1,015.24	773.18	993.06	(+)28.44
	Actuals	1,369.81	1,123.03	799.42	808.00	604.55	(-)-25.18
Total	Budget Estimates	26,969.42	62,619.00	72,251.88	69,328.57	85,300.00	(+)23.01
	Actuals	48,407.73	56,519.81	64,674.06	67,597.49	66,650.37	(-)-1.40

*Source: Budget Estimates and Finance Accounts of Government of Telangana for relevant years*

Receipts under Sales Tax and Land Revenue have not matched the Budget Estimates (BEs) in the five-year period 2016-21 and same is the case with SGST during the three year period 2018-21. Receipts under Stamps and Registration Fees were more than the Budget Estimates (BEs) during the three-year period 2017-20 and far less for the year 2020-21. Taxes on vehicles revenue exceeded BEs during 2016-18 and in 2019-20 but lagged during 2018-19 and 2020-21. State Excise revenue was more than the budgetary projections during the four-year period 2016-20 but marginally less than the BEs during the year 2020-21.

The break-up of tax revenue for the years 2019-20 and 2020-21 is shown in **Charts -1.3 and Chart-1.4** respectively.

<sup>2</sup> Others include - Other taxes on income & expenditure; estate duty; taxes on immovable property other than agricultural land; taxes on goods and passengers; taxes on duties on electricity and taxes on duties on commodities and services.



Tax revenue<sup>3</sup> accounted for 66 per cent of the total revenue<sup>4</sup> of the State in both the years of 2019-20 and 2020-21.

There has been a net decrease of 1.4 per cent in tax revenue during the year 2020-21 over the previous year. While the revenue under the heads Taxes on Sales, Trade and State Excise have increased, receipts under SGST, Stamps and Registration Fees, Taxes on vehicles, Land Revenue and Others have decreased.

Decrease in tax revenue during 2020-21 over the previous year was mainly due to less Tax collections, decrease in Input Tax Credit cross utilisation of State Goods and Services Tax (SGST) and IGST, which was offset by increase in advance apportionment from IGST. Decrease in other receipts (5.64 per cent), receipts from sale of Stamps, duty on impressing of documents and less collection of fees for registering of documents under Stamp Duty and Registration Fees (21.40 per cent) also attributed to decrease in tax revenue. Reasons for decrease in Taxes on Motor Vehicles, Land Revenue and Others were not furnished by the departments (December 2021).

### 1.3 Authority for audit

The Comptroller and Auditor General of India (C&AG) derives authority for audit from Articles 149 and 151 of the Constitution of India and C&AG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). C&AG audits receipts of the Government under Section 16 of the DPC Act.

### 1.4 Planning and Conduct of audit

The audit process starts with the assessment of risk of various Government departments based on Revenue generation, internal controls in the departments, previous audit findings etc. During the year 2019-20, 265 units were audited against 272 units planned. In 2020-21, out of 278 units planned, a total of 135 units were audited due to restrictions in movements imposed during Covid pandemic.

After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled

<sup>3</sup>2019-20 - ₹67,597.49 crore; 2020-21 - ₹66,650.37 crore.

<sup>4</sup>2019-20 - ₹1,02,543.81 crore; 2020-21 - ₹1,00,914.36 crore.

or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are processed for inclusion in the Audit Reports. These Audit Reports are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of State Legislature.

## **1.5 Response of Government / Departments to Audit Observations**

### **1.5.1 Response to previous Inspection Reports**

Heads of Offices and next higher authorities are required to respond to the observations contained in Inspection Reports (IRs) and take appropriate corrective action. Audit observations communicated in IRs are also discussed at periodical meetings held at District / State levels by officers of the Accountant General's office with officers of the concerned Departments.

A review of IRs issued up to December 2020 pertaining to five Revenue Receipts<sup>5</sup> of two departments showed that 10,328 paragraphs relating to 1,170 IRs valuing ₹4,889.61 crore were outstanding at the end of June 2021 (*Appendix 1.2*). Even first replies from the Heads of offices which were to be furnished within one month have not been received in respect of 121 IRs issued during 2020-21.

Lack of action on IRs and audit paragraphs is fraught with the risk of perpetuating serious financial irregularities pointed out in these reports. It may also result in dilution of internal controls in the governance process, inefficient and ineffective delivery of public goods / services, fraud, corruption and loss to public exchequer.

#### ***Recommendation:***

*Government should ensure prompt and appropriate response to audit observations, as well as take action against those failing to furnish replies to the IRs / paragraphs as per the prescribed time schedules.*

### **1.5.2 Departmental Audit Committee Meetings**

The Government has to set up Audit Committees to monitor and expedite the progress of the settlement of Inspection Reports (IRs) and paragraphs in IRs. During the year 2020-21, 26 IR paras valuing ₹1.79 crore were settled through Audit Committee meeting held by Revenue (Commercial Taxes) Department.

### **1.5.3 Response of Government to audit observations**

All Departments are required<sup>6</sup> to send their responses to draft audit paragraphs proposed for inclusion in C&AG's Report within six weeks of their receipt. During the year 2020-22, 64 draft compliance audit paragraphs were forwarded to the Special Chief Secretaries / Principal Secretaries / Secretaries of the Departments<sup>7</sup> concerned, drawing their attention to the audit findings and requesting them to send their response within

<sup>5</sup>Commercial Taxes, Land Revenue, Prohibition and Excise, Registration and Stamps and Transport.

<sup>6</sup>As per paragraph 4.7 of Finance Department's Handbook of Instructions.

<sup>7</sup>Commercial Taxes, Land Revenue, Prohibition and Excise, Registration & Stamps and Transport.

six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the C&AG of India, which would be placed before the State Legislature and it would be desirable to include their comments / responses to the audit findings.

Despite this, the Departments concerned did not furnish replies to the draft compliance audit paragraphs as on the date of finalisation of this Report. The fact of non-receipt of Government responses was also brought to the notice of the Chief Secretary to the Government in January 2022.

## **1.6 Follow-up on Audit Reports**

Administrative Departments are required to submit Explanatory Notes (ENs) on paragraphs and reviews included in Audit Reports<sup>8</sup>, within three months of their presentation to State Legislature duly indicating action taken or proposed to be taken.

Reports of the C&AG on Revenue Sector of the Government of Telangana for the years from 2014-15 to 2018-19 contained 170 paragraphs pertaining to four<sup>9</sup> Departments for which ENs are yet to be received. These Reports were placed before the State Legislative Assembly between March 2016 and March 2021. Out of 82 paragraphs pertaining exclusively to Telangana included in the Audit Reports of combined State of Andhra Pradesh and Telangana prior to 2014-15 i.e., for the years from 1996-97 to 2013-14, ENs for 13 paragraphs from Revenue (Land Revenue and Registration & Stamps) Department have not been received (April 2022).

Reports of the CAG on Revenue Sector of the Government of Andhra Pradesh contain 432 paras that are common to both Telangana and Andhra Pradesh States. ENs in respect of 193 paras from 10 Departments<sup>10</sup> have not been received (November 2021).

### **1.6.1 Response of Government to recommendations of the Public Accounts Committee**

Administrative Departments are required to submit Action Taken Notes (ATNs) on the recommendations of Public Accounts Committee (PAC) within six months<sup>11</sup> from the date of receipt of recommendations.

Action Taken Notes on 112 recommendations relating to Audit Reports (Revenue Sector) were due as of April 2022. Of these, 11 recommendations pertain to Telangana State and 101 pertain to combined State of Andhra Pradesh and Telangana.

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<sup>8</sup>As per instructions issued by Finance and Planning Department vide U.O. No.23810-C/200/PAC/93-2 dated 3 November 1993.

<sup>9</sup>Revenue (Commercial Taxes, Prohibition and Excise, Land Revenue, Registration & Stamps, Endowments); Transport; Energy, Industries & Commerce.

<sup>10</sup>Commercial Tax, Prohibition and Excise, Land Revenue, Transport, Registration & Stamps, Industries and Commerce, Endowments, Forest, Cooperation and Finance.

<sup>11</sup>As per instructions issued by Finance and Planning Department vide U.O. No. 1576-A/32/PAC/95, dated 17 May 1995.

## **1.7 Coverage of this Report**

This Report contains 26 compliance audit paragraphs. The total financial impact of the paragraphs is ₹125.31 crore excluding one Compliance Audit on ‘Functioning of Registration and Stamps Department’ with financial impact of ₹7.42 crore and two Subject Specific Compliance Audits on ‘Refunds under GST’ and ‘Transitional Credits’ with financial impact of ₹32.97 crore and ₹56.04 crore respectively. These are discussed in Chapters II to V. The Departments / Government have accepted audit observations involving ₹51.88 crore (as of April 2022). Out of the accepted audit observations, the Departments had recovered ₹5.02 crore (10 *per cent*) up to April 2022 at the instance of Audit.