



**Report of the
Comptroller and Auditor General of India
on
Revenue and Economic Sector
for the year ended 31 March 2019**



लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest



Government of Tamil Nadu
Report No. 1 of the year 2021

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Comptroller and Auditor General of India
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PREFACE

This Report of the Comptroller and Auditor General of India for the year ended 31 March 2019 has been prepared for submission to the Governor of the State of Tamil Nadu under Article 151 of the Constitution of India.

The report has been prepared in two parts. Part-A contains significant findings of audit of Receipts and Expenditure of major revenue earning departments of Commercial Taxes and Registration, Home (Prohibition and Excise), Home (Transport-Motor Vehicles Tax), Land Revenue, Geology and Mining and Electricity Taxes under Revenue Sector.

Part-B contains significant results of audit of the Departments of Agriculture; Animal Husbandry, Dairying and Fisheries; Environment and Forests; Handlooms, Handicrafts, Textiles and Khadi; Highways and Minor Ports; Industries; Information Technology; Micro, Small and Medium Enterprises; Public Works and Tourism.

The instances mentioned in this Report are those, which came to notice in the course of test audit during the period 2018-19 as well as those which came to notice in earlier years, but could not be reported in the previous Audit Reports. The instances relating to the period subsequent to 2018-19 have also been included, wherever necessary.

This audit was conducted under the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

OVERVIEW

PART-A – REVENUE SECTOR

This part of report contains 18 paragraphs, including one Performance Audit, relating to non / short levy of taxes, interest, penalty, etc. involving ₹ 1,518.80 crore. Some of the major findings are mentioned below:

I General

The total revenue receipts of the State during 2018-19 were ₹ 1,73,741.16 crore, comprising tax revenue of ₹ 1,05,549.90 crore and non-tax revenue of ₹ 14,200.02 crore. ₹ 30,623.03 crore was received from the Government of India as State's share of divisible Union taxes and ₹ 23,368.21 crore as grants-in-aid. The revenue raised by the State Government in 2018-19 was 69 *per cent* of the total revenue receipts as compared to 71 *per cent* in 2017-18. Sales tax and Goods and Services Tax (₹ 81,234.16 crore) formed a major portion (77 *per cent*) of the tax revenue of the State. Interest receipts, dividends and profits (₹ 7,031.19 crore) accounted for 50 *per cent* of the non-tax revenue.

(Paragraph No. 1.1)

Test check of records relating to Goods and Services Tax, Commercial Taxes, Excise Duty, Stamp duty and Registration fee, Electricity Tax and Land Revenue during the year 2018-19 revealed under-assessments, short levy, loss of revenue and other observations amounting to ₹ 1,950.11 crore in 4,328 cases.

(Paragraph No. 1.9)

II Goods and Services Tax / Value Added Tax / Central Sales Tax

Compliance Audit on "Processing of GST Refunds" revealed the following:

- There is no provision to restrict claim of Input Tax Credit / Refund in proportion to remittance received.

(Paragraph No. 2.4.2.2)

- The assessing authorities were not provided with MIS reports. This resulted in incorrect allowance of Input Tax Credit / Refund claims.

(Paragraph No. 2.4.2.5)

- There was incorrect allowance of Input Tax Credit / Refund on turnover relating to subsidy which is not assessable under GST. Lack of provision in the Act to regulate Input Tax Credit / Refund resulted in incorrect availing of ITC of ₹ 371.44 crore and grant of refund of ₹ 298.02 crore.

(Paragraph No. 2.4.3.2)

- Excess refund of ₹ 32.36 crore and ₹ 11 crore identified due to discrepancies relating to determination of adjustable turnover.

(Paragraphs No. 2.4.3.3 and 2.4.3.4)

- Claim of refund both under Rebate of State Levies and through the regular refunds was identified to the tune of ₹ 102.37 crore.

(Paragraph No. 2.4.3.5)

Other Audit Observations

- Analysis of Commercial Taxes Department data revealed instances of leakage of revenue of ₹ 45.96 crore in 135 cases due to failure to adhere to the instructions of Commissioner of Commercial Taxes.

(Paragraph No. 2.5.5)

- Irregularities in claim of input tax credit of ₹ 42.86 crore was noticed in 175 cases.

(Paragraph No. 2.5.6)

- Non / short reversal of input tax credit of ₹ 8.49 crore was noticed in 51 cases involving sale of exempted goods and stock transfer of goods to other States.

(Paragraph No. 2.5.7)

III State Excise

Performance Audit on Receipts under State Excise revealed the following:

- Audit noticed violations of licence conditions. The department did not monitor the violations and continued to issue and renew licences despite non-payment of brand renewal fee, non-production of pollution clearance and tourism certificates, excessive holding of liquor beyond approved possessional limits sanctioned and non-registration of lease documents.

(Paragraphs No. 3.3.9.1 and 3.3.9.2)

- TASMAL short paid VAT to the tune of ₹ 424.02 crore due to incorrect computation of taxable turnover. The Assessing Authority of the Commercial Tax Department did not exercise his responsibility of checking computation of turnover and tax. Even after being pointed out in audit, there was short computation in the revision order.

(Paragraph No. 3.3.10.1)

- TASMAL did not pay differential excise duty on stock to the tune of ₹ 13.99 crore. The amount would be higher had the company furnished details of all depots.

(Paragraph No. 3.3.10.2)

- There was short collection of duty of ₹ 1.03 crore due to incorrect proof strength adopted by various manufactories

(Paragraph No. 3.3.10.5)

- TASMAL outlets were charging higher price than MRP and were also not issuing cash receipt. Department did not check the violations. There was also lack of transparency in placement of orders by TASMAL

(Paragraphs No. 3.3.11.1 and 3.3.11.3)

IV Stamp Duty and Registration Fee

- In 11 registering offices, misclassification of instruments by the registering authorities resulted in short collection of stamp duty and registration fee of ₹ 1.04 crore.

(Paragraphs No. 4.4.1, 4.4.2 and 4.4.5)

- Incorrect allocation and Incorrect remission of transfer duty surcharge of ₹ 97 lakh was noticed in 10 Registering Offices.

(Paragraphs No. 4.4.3 and 4.4.4)

PART-B – ECONOMIC SECTOR

V General

This Report covers the functioning of 10 Departments of Economic Sector. Of the 10 Departments with a total expenditure of ₹ 32,285.07 crore covered here, a major portion of the expenditure was incurred by Highways and Minor Ports (28.34 *per cent*), followed by Agriculture (28.22 *per cent*), Public Works (16.57 *per cent*) and Industries (11.75 *per cent*) Departments during 2018-19.

(Paragraph No. 5.1)

VI Compliance Audit

Compliance Audit on the functioning of Tamil Nadu Agriculture University revealed the following:

- The shortcomings in maintenance of financial statements and release of excess grants of ₹ 178.18 crore during 2016-17 to 2018-19 continued despite being recommended by PAC indicating inadequate compliance and absence of corrective measures for more than 10 years. The available funds were also not utilised by the Tamil Nadu Agriculture University to achieve its objectives.
- There was shortfall of 06 to 12 *per cent* during 2016-17 to 2018-19 in admission of students in the constituent colleges, shortage of laboratory equipment, vacancies in faculty and inadequate student-faculty ratio which hindered imparting of quality education to students.
- Machinery purchased for research were lying unused for want of adequate power supply. Delay in completion of research projects, including publication of papers led to non-achievement of envisaged objectives. The patents were not filed properly and no system was in place to ensure collection of royalty.
- Non-publication of results of research projects deprived the farming community of the research benefits.
- There were gaps in implementation of extension activities including training and machinery procured for extension activities remained unutilised leading to non-achievement of the envisaged objectives.

(Paragraph No. 6.1)

Audit of transactions of various Departments of Government and field offices revealed non-availing of Government of India grants, blocking of funds, additional expenditure and loss of Government revenue as summarised below:

- Delay in release of grants and furnishing of Utilisation Certificates by Government of Tamil Nadu for the sanctioned projects resulted in non-release of Government of India grants of ₹ 16.26 crore. Thus, the intended objectives of development of food processing sector and promotion initiatives for skill development were only partially achieved.

(Paragraph No. 6.2)

- Delay in submission of Completion Report for the completed Railway bridge works resulted in non-settlement of dues amounting to ₹ 120.63 crore.

(Paragraph No. 6.3)

- Delay in procurement and installation of the required equipment led to non-fulfilment of the desired objective of preserving the quality of raw milk despite incurring an expenditure of ₹ 26.88 crore, besides non-receipt of GOI grant of ₹ 11.52 crore due to non-utilisation of funds.

(Paragraph No. 6.4)

- Delay in recovery of additional expenditure of ₹ 1.83 crore for completion of balance building works from defaulting contractors due to ineffective pursuance and non-recovery of ₹ 0.17 crore due to non-renewal of bank guarantees.

(Paragraph No. 6.5)

- Inadequate enforcement of Regulations by Public Works Department resulted in indiscriminate drawal of ground water by water based industries in Over-Exploited and Critical areas, besides non-realisation of service charges of ₹ 71.22 lakh annually.

(Paragraph No. 6.6)

PART-A
REVENUE SECTOR

CHAPTER I

GENERAL

PART-A
CHAPTER I
GENERAL

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	(₹ in crore)			
		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

(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.

CHAPTER II

GOODS AND SERVICES TAX / VALUE ADDED TAX / CENTRAL SALES TAX

PART-A
CHAPTER II
**GOODS AND SERVICES TAX/
VALUE ADDED TAX / CENTRAL SALES TAX**

2.1 Tax administration

The administration of the Commercial Taxes Department is vested with the Commissioner of Commercial Taxes. The State has been divided into 40 zones, comprising 334 assessment circles including four Large Taxpayers units¹ at Chennai and one Divisional Large Taxpayers unit at Coimbatore. Assessment, levy and collection of tax are done by the Assessing Authorities in charge of the assessment circles. Monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

2.2 Internal audit

The Internal Audit wing is organised in each Zone and consists of an Assistant Commissioner, Commercial Tax Officer and two supporting staff. The assessments finalised and the refunds made in the preceding quarter were to be taken up for audit in the succeeding quarter.

The details of offices programmed for conduct of internal audit and the offices in respect of which internal audit was done during the year 2018-19 were not furnished by the Department. The year-wise break up of outstanding inspection reports was also not furnished by the Department. In the absence of information, Audit could not comment on the efficacy of internal audit.

2.3 Results of audit

Test check of records of departmental offices conducted during the period from April 2018 onwards revealed under-assessment of tax and other irregularities amounting to ₹ 1,287.83 crore in 3,988 cases, which broadly

¹ Large taxpayers – Dealers whose taxable turnover for a year exceeds ₹ 200 crore.

fall under the following categories:

Table 2.1: Results of Audit

Sl. No.	Category	No. of cases	(₹ in crore)
			Amount
1	Compliance Audit on 'Processing of GST Refunds'	1	966.04
2	Incorrect allowance of input tax credit	1,104	126.35
3	Non/short levy of tax	374	24.33
4	Non-levy of penalty/interest	256	11.63
5	Incorrect computation of taxable turnover	218	24.08
6	Incorrect rate of tax	161	56.55
7	Incorrect exemption of tax	58	1.45
8	Others	1,816	77.40
	Total	3,988	1,287.83

After Audit pointed this out, the department accepted underassessments and other deficiencies in 613 cases and recovered an amount of ₹ 42.38 crore, out of which, ₹ 38.72 crore involved in 307 cases was pointed out during the year and the rest in earlier years.

Compliance Audit on 'Processing of GST Refunds' and few illustrative cases involving ₹ 1,074.91 crore are discussed in the following paragraphs.

Goods and Services Tax

2.4 Compliance Audit on 'Processing of GST Refunds'

2.4.1 Introduction

The Goods and Services Tax (GST) regime has a system of repayment of excess tax paid / unutilised Input Tax Credit (ITC). A claim of refund may arise on account of claim of remittances on account of export of goods and services, supplies to Special Economic Zone (SEZ) units, Deemed exports, finalisation of provisional assessment, arithmetical errors, judicial pronouncements, etc. Refund may also arise on account of accumulated ITC due to inverted duty structure². Timely refund mechanism is essential in tax administration as it facilitates trade by releasing the blocked funds for the purpose of working capital, expansion and modernisation of existing business. At the same time, a robust system for identifying unlawful / incorrect refund claims to arrest revenue leakage and undue enrichment is also an inevitable part of the refund mechanism. To achieve the same, the claim and sanctioning procedure under GST was envisaged to be completely online. Various forms and statements required for claiming refunds were standardised. However, due to non-availability of refund module on the common portal, the Commercial

² Tax structure wherein rates of tax on input being higher than the rates of tax on output.

Taxes Department in its Circulars³ allowed manual filing and processing of refunds.

Organisational Structure

In Tamil Nadu, State Goods and Services Tax (SGST) is administered by Commercial Taxes Department (CTD) in respect of dealers allotted to State. The Commissioner of State Tax (Commissioner) is the head of CTD. He is assisted by Additional Commissioners and Joint Commissioners. There are three refund circles and 334 assessment circles including four Large Taxpayers Units (LTUs). The Deputy Commissioners, Assistant Commissioners, State Tax Officers, Deputy State Tax Officers are the Assessing Authorities (AAs) who are entrusted with assessment and collection of taxes. The monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

Audit Objective and Criteria

The audit was performed to ascertain and derive an assurance that

- adequate system has been established in the department for correct and efficient processing of refund claims;
- the extant provisions relating to processing of refund claims are followed by the tax authorities; and
- efficient internal control mechanism existed for expedient processing of refund claims while safeguarding revenue.

The audit objectives were benchmarked against the following criteria:

- Tamil Nadu Goods and Services Tax Act, 2017 (TNGST Act)
- Tamil Nadu Goods and Services Tax Rules, 2017 (TNGST Rules)
- Central Goods and Services Tax Act, 2017 (CGST Act)
- Central Goods and Services Tax Rules, 2017 (CGST Rules)
- Integrated Goods and Service Tax Act, 2017 (IGST Act)
- Integrated Goods and Services Tax Rules, 2017 (IGST Rules)
- Notifications and circulars issued up to 31 March 2019.

Audit Scope and Methodology

As per the MIS Reports furnished by the Department, 20,635 refund applications involving a total amount of refunds of ₹ 6,281.53 crore (including SGST, CGST and IGST) were processed during the period from 1 July 2017 to 31 March 2019. Out of this, 9,328 applications processed by 39⁴ out of 334

³ Circular Nos. 1 and 2/2018-TNGST-Refund dated 02 February 2018.

⁴ Adyar, Alwarpet, Amaidakarai, Avinashi, Ayyappanthangal, Chengalpattu, Chithode, Ganapathy, Guindy, Hosur North, Karur East, Karur North, Karur South, Karur West, Kongu Nagar, Lakshmi Nagar, LTU-II, Manali, Muthialpet, Nandanam, Oragadam, Palladam, Pallavaram, Peelamedu North, Podhanur, Ranipet Sipcot, Royapuram, Sholinganallur, Sriperumbudur, Thudiyalur, Tiruchengodu Rural, Tiruppur Bazaar, Tiruppur Central-I, Tiruppur Central-II, Tiruppur North, Tiruppur Rural, Tiruppur South, Tuticorin-III and Vepery.

assessment circles and all the three⁵ refund circles, selected based on stratified sampling, involving refunds of ₹ 5,682 crore, i.e. 90 *per cent* of total refund amount, were covered in audit. The office of the Commissioner of State Taxes and other assessment circles were also visited for collection of materials.

Acknowledgement

An entry meeting was held with the CTD on 6 August 2019 in which audit objectives, criteria, scope and methodology were explained. Audit had requested for data dump. However, the Department shared only the details of refund applications filed by the dealers and the details such as returns filed by the dealers who claimed refunds were not shared by the department. Therefore, observations were based only on the limited audit carried out in the field. The department expressed its inability to hold Exit Conference due to COVID-19 situation. However, the Government furnished replies in June and September 2020, which have duly been incorporated in the report. During the audit, various compliance issues involving ₹ 966.04 crore were raised and based on these audit observations, the Department already collected ₹ 34.97 crore till date.

Audit Findings

The audit observations discussed in the subsequent paragraphs are observed from the test check of records in the selected offices. The observations are of a nature that may reflect similar deficiencies / under assessments in other offices, not test checked by Audit. The Department may, therefore, carry out checks in these offices to ensure that such irregularities and deficiencies, if any, stand rectified.

2.4.2 Deficiencies in system of processing of refunds

2.4.2.1 Circular issued not in tune with the provisions of the Act

According to Sections 41 and 42 of the TNGST Act, (i) accepted / confirmed ITC claims, arrived at after matching with the corresponding outward supplies alone should be included in the calculation of provisional or final refund amount and (ii) unmatched discrepant / excess claims of ITC are disallowed through raising of output tax liability in respect of the recipient of the supply and the balance of electronic credit ledger of the refund claimant would be reduced to the extent of the above output tax liability. The Central Board of Indirect Taxes and Customs (CBIC), however, instructed (Circular⁶ in September 2018) that while processing refund applications (i) the AAs may call for hard copies of invoices for processing of refund claims in cases where the GSTR-2A⁷ of the claimant did not contain the details of all invoices

⁵ Karur Special Circle, Tiruppur Special Circle-I and Tiruppur Special Circle-II.

⁶ Circular No 59/33/2018 dated 4 September 2018 of Central Board of Indirect Taxes and Customs, Department of Revenue, Ministry of Finance.

⁷ GSTR 2A is an auto-populated form created when the goods or service provider files GSTR 1. Through GSTR 1, the tax payer provides the details of invoices and the buyer gets an intimation of the same in the form of GSTR 2A. This is a read-only document which has Accept/Decline option against each of the invoice details for ratification.

relating to the ITC availed, because the supplier's return in GSTR-1 was delayed or not filed, and (ii) the claimant is to submit details of invoices on the basis of which ITC had been availed along with declaration on its eligibility.

As per provisions of the Act *ibid*, claims of refund shall be restricted only to the amount of ITC reflected in Form GSTR 2A. Therefore, the CBIC instructions issued to process the claims of refund based on physical invoices beyond the information reflected in Form GSTR 2A is not in tune with the mandate of the Act.

After Audit pointed this out in April 2020, the Government replied (June 2020) that the GST Council (GSTC) has taken decision to issue refund based on GSTR-2A and details of invoices in the context of providing relief to the refund claimants consequent to implementation of GST and based on the above approval by the GSTC, the circular was issued. The Government further replied that the issue would be referred to the GSTC Secretariat.

2.4.2.2 Absence of provisions to restrict the refund claim proportionate to part-receipts for exports

Rule 89(4) of TNGST Rules provides a formula⁸ for granting refund of ITC in the case of zero-rated⁹ supply of services. Rule 89(4)(D) defines the turnover of zero rated supply of services as the aggregate of payments and advances received. Rule 89(4)(E) defines the adjusted total turnover as the aggregate of payments and advances received for the value of the turnover of zero-rated supply of services determined as per Rule 89(4)(D) and non- zero-rated supply of services. Therefore, in cases of exporters dealing with zero-rated supply of services alone, the numerator and the denominator in the formula cited are one and the same. Thus, effectively in cases of zero-rated supply of services, the refund allowable is the net ITC claimed by the dealer. Since the 'turnover' factor has no effect in the formula, an exporter of services can claim the entire ITC at credit as refund even if only a part of the value of exports is realised as foreign remittance.

After Audit flagged this issue (April 2020), the Government replied (June 2020) that the issue would be brought to the notice of the GSTC Secretariat and the formula would be corrected.

2.4.2.3 Absence of provision to furnish FOB value in Form GSTR-1

Through a Circular¹⁰ issued in March 2018, the Commissioner clarified that in cases of discrepancy between the values of GST invoice and shipping bill or bill of export, the lower of the two values shall be sanctioned as refund.

In this connection, it is pointed out that the Table-6A (Exports) of FORM GSTR-1 provides for furnishing of details of Invoice Number, Invoice value and Invoice amount, shipping bill number and shipping bill date. However, it

⁸ **Refund Amount = $\frac{\text{(Turnover of zero rated supply of services)} \times \text{Net ITC}}{\text{Adjusted Total Turnover}}$**

⁹ **Supply of goods or services for the purpose of export or supply to SEZ.**

¹⁰ **Circular No.4/2018-TNGST-Refund dated 27 March 2018.**

does not provide for furnishing of shipping value (FOB) in GSTR-1 under Table-6A. If a provision to furnish FOB value in GSTR-1 is made, it would facilitate speedy processing of refunds as it becomes easier for the AAs to verify the shipping value to ascertain the export turnover in compliance with the above said circular. This would also facilitate issue of GST refunds on account of export of goods with payment of tax by the Customs authorities, as the FOB value as per returns can be matched with shipping bill value in Indian Customs Electronic Data Interchange System portal. The implications of lack of FOB details have been brought out in paragraph 2.4.3.3.

After Audit pointed this out in April 2020, Government replied (June 2020) that the issue would be taken up with the GSTC for amendment of Table 6A in GSTR-1.

2.4.2.4 Absence of mechanism to verify ITC availed on imports

According to Section 42(2), 42(5), 42(6) of TNGST Act, the ITC claims of the taxable person shall be matched with the corresponding outward supply. The claims of ITC which were found to be discrepant / excess would be added as output tax liability. Further, as per section 54(6) of TNGST Act, provisionally accepted ITC shall not be included in the calculation of provisional refund value. From the above, it is clear that only accepted / confirmed ITC claims, arrived after matching with the corresponding outward supplies, should be included in the calculation of provisional or final refund amount.

During the audit of processing of GST refund applications in 42 circles, mismatch between ITC as per GSTR-2A and ITC as per GSTR-3B was noticed in Oragadam, LTU-II and Manali assessment circles in respect of three dealers. Although the mismatch is due to IGST paid on imports which will not reflect in GSTR-2A, the assessing officer did not have a mechanism to verify the differences, since no details were obtained from the Customs Department before processing the applications.

After Audit pointed this out in April 2020, Government replied (June 2020) that the GSTC has already taken note of the need to establish a mechanism for verification of IGST paid on imports while processing refunds and the matter would be pursued further with the GSTC.

2.4.2.5 Non-availability of MIS reports to Assessing Authorities

According to Section 16(2) of TNGST Act, no registered person shall be entitled to the credit of any input tax in respect of any supply of goods or services or both to him unless (a) he is in possession of a tax invoice or debit note issued by a supplier registered under this Act, or such other taxpaying documents as may be prescribed; (b) he has received the goods or services or both; (c) subject to the provisions of section 41, the tax charged in respect of such supply has been actually paid to the Government, either in cash or through utilisation of ITC admissible in respect of the said supply; and (d) he has furnished the return under Section 39. Refund denotes repayment of the taxes already credited to the Government Account. Hence, ensuring that the tax has been credited to the Government Account before issuing refund is an essential verification to be done by the assessing officers while processing refund.

Audit scrutiny of the Management Information System (MIS) reports available to the AAs revealed that the MIS reports relating to claim of ITC from (i) cancelled dealers, (ii) Return not filers and (iii) NIL return filers were not available.

Test check (May 2020) of audit of the returns filed by the suppliers of refund claimants indicated the following deficiencies:

- In respect of 24 dealers assessed in 22¹¹ circles, there was mismatch between tax due as per GSTR-1 and tax paid as per GSTR-3B for the respective tax periods. Out of this, nine dealers did not pay tax even to the extent of ITC availed by the refund claimants. The department replied that for one case in Gandhinagar circle, an amount of ₹ 15.13 lakh along with an interest of ₹ 4.80 lakh was since collected.
- In Kancheepuram and Mettur assessment circles, in case of two dealers who were not paying taxes and registrations were cancelled, it was noticed that refund claimants had availed ITC to the tune of ₹ 15.76 lakh.
- In respect of one dealer assessed in Gudiyatham West assessment circle, supplies were stated to be made to the refund claimants in GSTR-1 but GSTR-3B was not filed and tax amounting to ₹ 7.78 lakh was not paid.

After Audit pointed this out (April and May 2020), the Government replied (June 2020) that MIS reports relating to cancelled dealers, non-filers of returns and NIL return filers would be made available to the concerned officers to enable them to take action.

2.4.2.6 Non-availability of Import and Export details

In order to verify the correctness of refund claims of the dealers, the details of imports and exports are essential. When audit called for these details, Business Intelligence Unit¹² replied that the details of imports were received from Customs Department for the months of July and August 2017 only, the details of exports were not called for and the details of GSTIN, IGST and Cess paid details were not received. Audit obtained the details of IGST refunds on account of zero rated supply with payment of Integrated Tax, issued by Customs Department during the period from 1 July 2017 to 31 March 2019 through six ports. Test check of these details with the returns filed by the dealers and refund claimed on account of zero rated supply without payment of tax from the assessment circles revealed the following:

- As per the Notifications¹³ issued by the Government of India as a

¹¹ Anupparpalayam, Gandhinagar, Kelambakkam, Koyambedu, LTU-I, LTU-III, Madhavaram, Mettupalayam Road, PN Palayam, Panruti Rural, Porur, Ranipet Sipcot, Rasipuram, Sattur, Selaiyur, Sriperumbudur, Tirupattur, Tirumazhisai, Tiruppur Central-I, Velachery, Vellakovil and Vellore South.

¹² Business Intelligence Unit was established in CTD in December 2012 to improve revenue collection, check evasion of tax and to carry out analysis of various data gathered internally and externally, on commodities, dealers, exports and imports.

¹³ Notifications No. 12020/03/2016-IT dated 12 August 2016 and 31 July 2017 & Notification No.12015/47/2016-IT dated 3 January 2017.

transition measure, the exporter may claim Rebate of State Levies (ROSL) under export of garments and made-ups scheme at the notified rates¹⁴ provided that the exporter gives an undertaking that he has not claimed or shall not claim credit / rebate / refund reimbursement of these specific State Levies and SGST and / or IGST under any other mechanism. According to third proviso to Section 54(3) of the CGST Act, no refund of ITC shall be allowed, if the supplier of goods or services or both avails of drawback in respect of central tax or claims refund of the integrated tax paid on such supplies. Two dealers assessed in Kovilpatti and Jaihindpuram assessment circles who availed Rebate of State Levies on 145 shipping bills during the period from July to September 2017 had claimed incorrect ITC amounting to ₹ 1.08 core. Another dealer assessed in Villivakkam assessment circle had availed duty drawback on three shipping bills and also claimed ITC amounting to ₹ 2.11 lakh.

- As per Section 16(3)(b) of the IGST Act, a registered person making zero rated supply shall be eligible to claim refund of IGST paid on such supplies. Test check of returns filed by the dealers, who had obtained IGST refunds from Customs Department, revealed that in respect of 14 dealers assessed in 13¹⁵ circles, there was mismatch between tax due as per GSTR-1 and tax paid as per GSTR-3B.
- Two dealers who were granted IGST refunds on four shipping bills did not pay tax and did not submit the bills. In another case, a dealer paid lesser tax but claimed a higher amount of refund.
- As per Rule 89(4)(C) of the TNGST Rules, 2017 "Turnover of zero-rated supply of goods" means the value of zero-rated supply of goods made during the relevant period without payment of tax under bond or letter of undertaking. However, audit noticed that three dealers in three¹⁶ assessment circles, obtained refund from Customs Department with payment of tax, had claimed refund from assessment circles without excluding the turnover for which refund was claimed from the Customs Department. This resulted in incorrect issue of refund to the tune of ₹ 7.86 lakh. After Audit pointed this out (March 2020), it was replied (June 2020) that a sum of ₹ 4.17 lakh was collected in one case.
- A dealer in Tuticorin-I assessment circle availed ITC of ₹ 54.22 crore towards IGST paid on import of services in August 2018. Though the payment for this IGST was made before filing return for August 2018 the discharge of liability by way of debit entry from Electronic cash ledger was made only in October 2018.

After Audit pointed this out in April 2020, Government replied (June 2020) that no fresh instructions regarding obtaining of data from Customs

¹⁴ Notifications No. 12020/03/2016-IT dated 13 August 2016 and 04 November 2016 & Notification No.12015/47/2016-IT dated 15 March 2017

¹⁵ Ambattur Industrial Estate, Avanashi Road, Kovilpatti, Kuniyamuthur, LTU-II, LTU-III, LTU-IV, Peelamedu North, Podhanur, Ranipet Sipcot, Sriperumbudur, Thudiyalur and Tiruppur Lakshmi Nagar.

¹⁶ Podhanur, RS Puram and Tuticorin-III.

Department was issued during GST regime. As the matter involves policy issue and is an All India issue, this would be taken up with the GSTC.

2.4.2.7 Non-creation of Consumer Welfare Fund

As per Section 57 of TNGST Act, the Government shall constitute a Consumer Welfare Fund, and credit the same with amounts prescribed. As per Section 58, all sums credited to the Fund shall be utilised by the Government for the welfare of the consumers. Rule 97 of TNGST Rules envisages constitution of a committee in this regard, composition and powers thereof and also method of utilisation of money from the fund. Audit noticed that the Government did not establish Consumer Welfare Fund as prescribed in the Statute.

After Audit pointed this out in April 2020, Government replied (June 2020) that the proposal to constitute a Committee is under consideration.

2.4.3 Discrepancies in processing of refunds

2.4.3.1 Delay in issue of acknowledgement, deficiency memo, provisional and final refunds

Audit analysed 6,287 out of 9,328 refund applications from Refund register and found delays in various stages of processing of refund applications as detailed in the **Annexure 2**. As per the Rules 90 (2) and 90 (3), acknowledgement and deficiency memos are to be issued within 15 days of filing of refund application. The final order of refund should be made within 60 days as mentioned in Section 54 (7) of the TNGST Act. Audit identified delays ranging from one day to 490 days in various processes of issue of refunds. It was also seen that in 789 cases, the Department had not issued final orders although the 60-day time limit prescribed in Section 54(7) of the TNGST Act had elapsed.

After Audit pointed this out in April 2020, Government replied (June 2020) that the delays were due to manual processing and issuance of refund order. With the development of online refund module (September 2019) which has the necessary MIS for review, delays have been substantially reduced. However, replies to individual cases would be furnished to Audit separately. It is pertinent to point out that delay in processing of refund would result in payment of interest at six *per cent* to the dealers, which is avoidable.

2.4.3.2 Incorrect availing of Input Tax Credit and refund on account of subsidy

As per Section 17(2) of TNGST Act, “Where the goods or services or both are used by the registered person partly for effecting taxable supplies including zero-rated supplies under this Act or under the IGST Act and partly for effecting exempt supplies under the said Acts, the amount of credit shall be restricted to so much of the input tax as is attributable to the said taxable supplies including zero-rated supplies.” As per Section 15(2)(e) of TNGST Act, the value of supply shall include subsidies directly linked to the price excluding subsidies provided by the Central and State Governments.

Fertilizer companies received subsidy from the Central Government as compensation for selling their products at a price fixed by the Central Government. Since as per Section 17(2), ITC is claimable only on taxable supplies and as per Section 15(2)(e) subsidy received from Central Government is not part of value of supply, the dealers are not entitled to ITC which is attributable to the subsidy accrued/received. Audit scrutiny revealed that two dealers assessed in Tuticorin-III and Manali assessment circles, had availed ITC for the subsidy received by them from the Central Government and claimed refund of ₹ 425.22 crore. The claim in both cases was allowed by the AAs that resulted in incorrect availing of ITC of ₹ 371.44 crore and excess refund of ₹ 298.02 crore.

After Audit pointed this out in April 2020, the Government replied (June 2020) that the supplies made by the dealers are entirely taxable with no component of exempt supplies and therefore Section 17(2) does not apply in these cases. It was also stated that since Section 15(2)(e) says that the value of such supply does not include the fertiliser subsidy, the MRP does not include fertiliser subsidy and the value of supply less taxable portion becomes MRP. It is contended that value of outward supply has no bearing on the claim of ITC and therefore provisions on restriction of ITC, which is governed by Chapter V, will not apply here.

The reply requires reconsideration due to the following:

Section 17(2) provides that when the inward goods or services or both used partly for effecting taxable supplies and partly for effecting exempt supplies, ITC shall be restricted to the said taxable supplies only. Further, when Government¹⁷ (June 2017) notified concessional GST rates for certain services, it was clearly specified that ITC shall not be available for such supplies. Explanation 4(iv)(b) of the above notification clarified that credit of input tax charged on goods or services used partly for supplying such service and partly for effecting other supplies eligible for input tax credits, is reversed as if supply of such service is an exempt supply and attracts provisions of sub-section (2) of Section 17 of TNGST Act and rules made thereunder. However, while specifying that the value of subsidy received from Government has to be excluded from value of supply under section 15(2)(e), the Act does not provide any explicit provision with regard to manner of availing of ITC when a part of value of outward supply is received through subsidy and not subjected to tax. Hence, it is imperative from the above that the broader principle of claim of ITC is restricted to the turnover on which tax is paid and this was absent in the case of subsidy. Absence of such a provision resulted in availing of full ITC on the inward supplies without taking into account the ITC attributable to the value of subsidy received and consequent excess refund. The audit observation, therefore, is reiterated.

2.4.3.3 Incorrect computation of refund in the case of zero-rated supply of goods/services

Rule 89(4) of TNGST Rules provides that in the case of zero-rated supply of goods or services or both without payment of tax under bond or letter of

¹⁷ G.O.Ms.No.72 dated 29 June 2017 of Commercial Taxes and Registration (B1) Department, Tamil Nadu.

undertaking in accordance with the provisions of sub-section (3) of section 16 of the IGST Act, refund of ITC shall be granted as per the formula¹⁸ prescribed. The Commissioner of Commercial Tax (CCT) had clarified¹⁹ that where there was a discrepancy between the values of GST invoice and shipping bill or bill of export the lower of the two values should be sanctioned as refund. Audit scrutiny of the refund claims revealed discrepancies as mentioned below:

- A dealer is entitled to take credit of input tax paid on purchases based on GSTR-2A which is auto populated from the GSTR-1 returns filed by the suppliers. Audit noticed in 20²⁰ assessment circles that ITC as per GSTR-2A was less than the ITC claimed in GSTR-3B by 81 dealers in 195 cases. The difference in Net ITC worked out to ₹ 37.19 crore. The Government replied (September 2020) that all invoices were physically verified and ITC had to be worked out on the basis of GSTR 3B. The reply is not acceptable since payment of tax by suppliers was not verified during issue of refund and, according to the provisions of Act, the claim of ITC in GSTR 3B shall be matched with GSTR 2A and refund shall be restricted to the amount available in GSTR 2A.
- 43 dealers in 14²¹ circles in respect of 187 cases, adopted incorrect turnover of zero rated supply of goods or services or both to the extent of ₹ 54.12 crore. The Government replied (September 2020) that in one case ₹ 0.07 lakh was collected. In 43 cases, it was contended that Audit has determined zero-rated turnover based on the FOB value but the adjusted turnover was determined based on invoice value. If FOB value is adopted at both points, then there will be no excess refund. The reply is not acceptable since adoption of FOB value for adjusted turnover is not prescribed in the said Circular.
- 19 dealers in 10²² assessment circles in respect of 49 cases, adopted incorrect adjusted total turnover value in their refund applications. The incorrect adjusted total turnover worked out to ₹ 315.62 crore. In 13 cases, the Government replied (September 2020) that adjusted turnover was also to be reduced. The reply, however, was general and not specific to the cases pointed out. In one case, it was stated that there was typographical error. However, Audit verified that there was no such error. In one more case, the Government replied that the dealer had actually claimed refund on a reduced adjusted turnover. The reply

¹⁸ Refund Amount = (Turnover of zero-rated supply of goods + Turnover of zero-rated supply of services) x Net ITC ÷ Adjusted Total Turnover. "Net ITC" means input tax credit availed on inputs and input services during the relevant period.

¹⁹ Circular No.4/2018-TNGST-Refund dated 27 March 2018.

²⁰ Adyar, Alwarpet, Avinashi, Ayyappanthangal, Chengalpattu, Guindy, Karur Special Circle, Muthialpet, Nandanam, Oragadam, Pallavaram, Peelamedu North, Podhanur, Ranipet Sipcot, Sriperumbudur, Thiruchengodu Rural, Thudiyalur, Tiruppur Special Circle-I, Tiruppur Special Circle-II and Tuticorin-III.

²¹ Adyar, Avinashi, Ayyappanthangal, Chengalpattu, Karur Special Circle, Muthialpet, Peelamedu North, Podhanur, Royapuram, Sriperumpudur, Thudiyalur, Tiruppur Special Circle-I, Tiruppur Special Circle-II and Veperiy.

²² Alwarpet, Adyar, Karur Special Circle, Nandanam, Pallavaram, Podhanur, Ranipet Sipcot, Thudiyalur, Tiruppur Special Circle-II and Veperiy.

requires reconsideration since reduction of adjusted turnover would result in higher refund.

The excess refund issued on account of the above discrepancies worked out to ₹ 32.36 crore in 22²³ assessment circles in respect of 367 cases pertaining to 106 dealers.

2.4.3.4 Incorrect computation of Refund on account of inverted duty structure

Rule 89(5) of TNGST Rules, provides that in the case of refund on account of inverted duty structure²⁴, refund of ITC shall be granted as per the formula²⁵ prescribed. Audit scrutiny of the refund claims revealed discrepancies as mentioned below:

- A dealer is entitled to take credit of input tax paid on purchases based on GSTR-2A which is auto populated from the GSTR-1 returns filed by the suppliers. Audit noticed in four²⁶ assessment circles that ITC as per GSTR-2A was less than the ITC claimed by the dealers in GSTR-3B in respect of eight cases pertaining to six dealers. However, the dealers had adopted higher values under Net ITC than what was available in GSTR-2A. The difference in Net ITC worked out to ₹ 10.30 crore. In six cases, the Government replied (September 2020) that refund was granted as per instructions in circular No 59/33/2018 dated 4 September 2018 of Central Board of Indirect Taxes and Customs, Department of Revenue, Ministry of Finance. It was also stated that in GSTR 2A import details would not get reflected and therefore there were no excess refunds. The reply is not acceptable since the circular itself was against the provisions of the Act which mandate matching of invoices. The Government also did not furnish details of imports that did not get reflected in GSTR 2A. In two cases, the specific reply of the Government was not given.
- Audit scrutiny of the refund applications processed by the AAs in six²⁷ assessment circles revealed that in respect of 15 cases pertaining to eight dealers, the adjusted total turnover value was wrongly adopted as verified from returns. The difference in adjusted total turnover worked out to ₹ 31.84 crore.

²³ Adyar, Alwarpet, Avinashi, Ayyapanthangal, Chengalpattu, Guindy, Karur Special Circle, Muthialpet, Nandanam, Oragadam, Pallavaram, Peelamedu North, Podhanur, Ranipet Sipcot, Royapuram, Sriperumbudur, Thudiyalur, Tiruchengodu Rural, Tiruppur special Circle-I, Tiruppur Special Circle-II, Tuticorin-III and Vepery.

²⁴ Tax structure wherein rates of tax on input being higher than the rates of tax on output.

²⁵ Maximum Refund Amount = {(Turnover of inverted rated supply of goods and services) x Net ITC ÷ Adjusted Total Turnover} - tax payable on such inverted rated supply of goods and services.

²⁶ Manali, Palladam, Thudiyalur and Tiruppur North.

²⁷ Palladam, Royapuram, Thudiyalur, Tiruchengodu Rural, Tiruppur Bazaar and Tiruppur North.

The excess refund issued on account of the above issues viz., incorrect adoption of Net ITC and adjusted total turnover worked out to ₹ 11 crore in seven²⁸ assessment circles in respect of 21 cases pertaining to 11 dealers.

2.4.3.5 Incorrect availing of ITC and Refund by Rebate of State Levies and Duty Drawback beneficiaries

As per the Notifications²⁹ issued by Government of India as a transition measure, the exporter may claim Rebate of State Levies (ROSL) under export of garments and made-ups scheme at the notified rates³⁰ provided that the exporter gives an undertaking that he has not claimed or shall not claim credit / rebate / refund reimbursement of these specific State Levies and SGST and / or IGST under any other mechanism. According to third proviso to Section 54(3) of the CGST Act, no refund of ITC shall be allowed, if the supplier of goods or services or both avails of drawback in respect of central tax or claims refund of the integrated tax paid on such supplies.

- It was noticed that 26 dealers in eight³¹ assessment circles who had availed ROSL and duty drawback benefits during the period from July to September 2017 had also claimed refund for the same period. The incorrect grant of refund worked out to ₹ 4.11 crore. This includes provisional refund of ₹ 7.50 lakh issued to a dealer assessed in Muthialpet assessment circle whose registration was cancelled subsequently. The Government replied (September 2020) that a sum of ₹ 57.99 lakh with an interest of ₹ 0.40 lakh was collected in respect of two dealers. Reply in respect of the remaining cases are awaited.
- It was noticed that in four³² assessment circles, 384 dealers who had availed ROSL and Duty drawback benefits during the period from July to September 2017, had also availed ITC in respect of their inward supplies. The total ITC availed incorrectly by these dealers worked out to ₹ 98.26 crore. After Audit pointed this out, AAs of Tiruppur Special Circle-I and Tiruppur Special Circle-II had replied that ITC amounting to ₹ 33.26 crore was since reversed in respect of 37 dealers. Government replied (September 2020) that in 2 cases an amount of ₹ 2.67 lakh was collected/adjusted. Government also stated that in one case dealer did not avail ROSL but audit verified and confirmed that the dealer had availed ROSL. Reply in respect of the remaining cases are awaited.

²⁸ Manali, Palladam, Royapuram, Thudiyalur, Tiruchengodu Rural, Tiruppur Bazaar and Tiruppur North.

²⁹ Notifications No. 12020/03/2016-IT dated 12 August 2016 and 31 July 2017 & Notification No.12015/47/2016-IT dated 3 January 2017.

³⁰ Notifications No. 12020/03/2016-IT dated 13 August 2016 and 04 November 2016 & Notification No.12015/47/2016-IT dated 15 March 2017.

³¹ Avinashi, Chengalpattu, Karur Special Circle, Muthialpet, Pallavaram, Peelamedu North, Tiruppur Special Circle-II and Vepery.

³² Karur Special Circle, Tiruppur Special Circle-I, Tiruppur Special Circle-II and Vepery.

2.4.3.6 Incorrect / Excess grant of refund

- According to Rule 91(3) and 92(4) of TNGST Rules, payment advice in RFD-05 for the amount sanctioned shall be issued by the proper officer. The payment advices are sent to PAO/Treasury for credit of refund to the dealers. Audit scrutiny of refunds credited to the dealers available in the PAO/Treasury revealed that double payments amounting to ₹ 4.00 crore were made to the dealers in respect of 27 refund claims in 18³³ assessment circles. Out of this, in nine cases in six³⁴ assessment circles, the dealers themselves had remitted back the double payment amount of ₹ 3.58 crore and in respect four cases in four³⁵ assessment circles, the department had detected and recovered the excess payments amounting to ₹ 0.17 crore. When the double refund in the remaining 14 cases amounting to ₹ 0.25 crore was pointed out, AAs of 10³⁶ assessment circles replied that a sum of ₹ 0.23 crore along with interest of ₹ 2.53 lakh had since been recovered in 12 cases. Reply in respect of the remaining two cases is awaited.
- A dealer assessed in Adyar assessment circle had claimed refund of ₹ 47.84 lakh on account of export of services made during pre-GST regime but proceeds realised in July 2017. A provisional refund of ₹ 43.06 lakh was issued in August 2018. Since the services rendered prior to the implementation of GST are not export of services as per TNGST Act, they are not eligible for claim of refund and the provisional refund granted was not in order as per Section 142(4) of the TNGST Act. This had resulted in incorrect grant of refund to the tune of ₹ 43.06 lakh. The Government replied (September 2020) that notice was issued and further reply would be furnished.
- A dealer assessed in Tuticorin-III assessment circle had claimed refund of ₹ 21.57 crore on account of inverted duty structure as per Section 54(3)(ii) of TNGST Act read with Rule 89(5) of TNGST Rules. The AA issued deficiency memo pointing out various deficiencies. The dealer had reduced ineligible ITC to the tune of ₹ 18.38 lakh and capital goods ITC of ₹ 11.09 lakh from the refund claim and revised the refund to ₹ 21.27 crore. However, the AA refunded the entire amount of ₹ 21.57 crore without considering the revised refund claim. This had resulted in excess grant of refund of ₹ 29.47 lakh. After Audit pointed this out (September 2019), the AA replied (January 2020) that the department had collected excess refund of ₹ 29.47 lakh from the dealer in January 2020.

³³ Adyar, Alwarpet, Amaindakarai, Ambattur, Chithode, Karur Special Circle, Mylapore, Nandanam, Nolambur, Perambur, Saidapet, Saligramam, Sankarankoil, Sriperumbudur, T.Nagar, Tiruppur Special Circle-II, Tiruvannmiyur and Tondiarpet.

³⁴ Adyar, Alwarpet, Nandanam, Tiruppur Special Circle-II, Tiruvannmiyur and Tondiarpet.

³⁵ Amaindakarai, Ambattur, Mylapore and Saidapet.

³⁶ Adyar, Chithode, Karur Special Circle, Nolambur, Perambur, Sankarankoil, Sriperumpudur, T.Nagar, Thiruvannmiyur and Tiruppur Special Circle-II.

- According to Rule 89(4) of TNGST Rules, ‘net ITC’ means ITC availed on inputs. As per Section 2(59) of the TNGST Act, ‘input’ means any goods other than capital goods. Therefore, refunds are not available for ITC availed on capital goods. Audit noticed that four dealers assessed in three³⁷ assessment circles had incorrectly included ITC availed on capital goods amounting to ₹ 97.03 lakh while claiming refund in respect of 12 cases. This has resulted in excess grant of refund to the tune of ₹ 31.33 lakh. After Audit pointed this out, the department replied that it had collected amount of ₹ 31.57 lakh in respect of all the 12 cases (July to September 2019).
- Audit noticed that, a dealer assessed in Hosur North assessment circle was granted a refund of ₹ 23.62 lakh for the month of July 2017. However, balance in the electronic credit ledger of the claimant at the end of the tax period was ₹ 17.34 lakh only. This has resulted in excess grant of refund of ₹ 6.28 lakh. The Government replied (September 2020) that notice was issued and further reply would be furnished.

2.4.3.7 Non-reversal of ITC

Government of Tamil Nadu issued orders³⁸ in June 2017, (i) permitting the Canteen Stores Department (CSD) a refund of 50 *per cent* of the applicable State Taxes paid by it, on all inward supplies of goods received by it, for the purposes of subsequent supply of such goods to the Unit Run Canteens and to authorised customers of the CSD and (ii) exempting the state tax leviable on the supply of goods by the CSD to the Unit Run Canteens and authorised customers.

During verification it was found that CSD, assessed in Chrompet assessment circle, was granted a refund of ₹ 73.94 crore (IGST ₹ 5.95 crore, CGST ₹ 33.96 crore and SGST ₹ 34.03 crore) being 50 *per cent* of ₹ 147.88 crore paid on inward supplies from July 2017 to September 2018. However, it was noticed that CSD had not adjusted and reduced the ITC in the electronic credit ledger in proportion to refund and carried over the ITC to subsequent periods. This resulted in reflection of excess credit of ITC to the tune of ₹ 147.88 crore in the electronic credit ledger, which is to be reversed.

After Audit pointed this out in April 2020, Government replied (June 2020) that the tax payer does not have an option of reducing 50 *per cent* from IGST, CGST, SGST separately but can only reduce the IGST amount completely first and then proceed to CGST and SGST. Due to this, the tax payer had not reduced the 50 *per cent* of IGST, CGST and SGST remaining in their electronic credit ledger. It was further replied that the assessing officer had issued notice to CSD to reverse 50 *per cent* ITC as there is a provision for reversal under the head “OTHERS”.

³⁷

Chithode, Tiruppur Central-I and Tiruppur Special Circle-I.

³⁸

G.O.Ms.No.67 and 68 dated 29 June 2017 of the Commercial Taxes and Registration Department, Tamil Nadu, Chennai

2.4.3.8 Non-payment of Interest on belated issue of refunds

As per Section 56 of TNGST Act, if any tax ordered to be refunded under sub-section (5) of Section 54 to any applicant is not refunded within sixty days from the date of receipt of application under sub-section (1) of that Section, interest at such rate not exceeding six per cent as may be specified in the notification issued by the Government on the recommendations of the Council shall be payable in respect of such refund from the date immediately after the expiry of sixty days from the date of receipt of application under the said sub-section till the date of refund of such tax. Government notified³⁹ interest rate as six *per cent*.

Audit scrutiny of the refund applications processed in 36 assessment circles revealed that the AAs had issued final refund order after the expiry of 60 days from the date of application in respect of 1,006 cases. The delay ranged from one to 323 days. However, no interest was paid on these refunds which were issued belatedly. Ideally, while sanctioning refund, the system should calculate interest automatically for the delayed period. However, no such facility has been provided in the system.

After Audit pointed this out in April 2020, Government replied (June 2020) that at present, there is no inbuilt mechanism in the system to sanction interest automatically for belated issue of refunds and necessary backend applications would be developed at the earliest.

2.4.4 Internal Control Mechanism

2.4.4.1 Non-reconciliation of refunds with treasury

Under Value Added Tax (VAT) regime, Refund advices issued by the various officers were reconciled with the payments recorded in the treasury. This reconciliation was done on quarterly basis and monitored by the Deputy Commissioners. However, no such procedure was being followed in respect of GST Refunds by assessment circles.

After Audit pointed this out in April 2020, the Government replied (June 2020) that, there is no proper mechanism for reconciling the actual refunds ordered and the total deductions made in the settlement orders. This issue will be taken up with GSTC secretariat and GSTN for finding the solution.

2.4.4.2 Non-updation of TNGST Act and Rules in the Department website

Several notifications were issued by the Government of Tamil Nadu amending various provisions of the TNGST Act and Rules from time to time. The CGST Act and Rules are updated based on these notifications and a reference to these notifications is placed under the relevant portion of the Act. However, similar updation is not contemplated by the Government of Tamil Nadu. The

³⁹ G.O.(M.S) No. 61 dated 29 June 2017 of the Commercial Taxes and Registration Department, Tamil Nadu.

notifications are available only in the website but the same are not incorporated in the Acts and Rules for ready reference. It is suggested that the Act and Rules may be updated with relevant notifications and made available in the website as done by Central Government from time to time for use of common public.

After Audit pointed this out in April 2020, the Government replied (June 2020) that the preparation of updated annotated versions of Act and Rules is underway.

2.4.5 Conclusion

Due to continued delay in introducing the facility of matching the invoice amounts with returns available in GST system, instances of excess claims of refunds were noticed. Further, instructions issued to grant refunds by verification of physical invoices did not take into account the enormous risks involved in the process. There is no mechanism to watch receipts of payments for exports of services since entire ITC is allowable as per the formula in the Rules, even a part of the value of exports realised. Refunds were granted for turnovers that were not assessable under GST. Absence of MIS reports and processing of refunds without obtaining data from CBIC has resulted in refund of amounts of unpaid tax. The Department is yet to introduce reconciliation of refunds granted.

2.4.6 Recommendations

The Government may

- Utilise the provision relating to matching of invoices to grant refunds online and avoid granting of refunds based on physical checking of invoices.
- Consider to amend the rule provisions so that the ITC can be restricted to the actual amount realised in the case of exports of services.
- Consider amending Table 6A in GSTR-1 so that the FOB value as per returns can be matched with shipping bill value.
- Introduce provision for restriction on claim of ITC in respect of subsidy granted by State and Central Governments.
- Obtain information from Customs Department for all the dealers under the State purview and this data may be used in assessments and refunds.
- Provide the facility to generate MIS reports to all the assessing authorities and refunds may be granted only after verification of the MIS reports.
- Strengthen the internal control by undertaking periodical reconciliation.

2.5 Other Audit Observations

Audit scrutiny of assessment records at 150 out of 443 auditable offices (34 *per cent*) revealed the following deficiencies:

Value Added Tax

2.5.1 Incorrect allowance of compounded rate of tax

Section 3(2) of the TNVAT Act provides that in the case of goods specified in Part B or Part C of the First Schedule, the tax shall be payable by a dealer on every sale made by him within the State at the rate specified therein.

Section 3(4)(a) of the TNVAT Act read with Notification dated 1 January 2007 provides that every dealer who effects second and subsequent sales of goods purchased within the State and whose turnover relating to taxable goods for a year is less than ₹ 50 lakh, may at his option, pay tax at the compounded rate of 0.5 *per cent*. Section 3(4)(b) of the TNVAT Act provides that such dealer whose turnover has reached ₹ 50 lakh during the previous year shall not be entitled to exercise such option for subsequent years.

Scrutiny of records (April 2018 to March 2019) in 19⁴⁰ assessment circles revealed that 31 dealers who sold goods for ₹ 25.75 crore during 2012-13 to 2016-17 had paid tax at the compounded rate of 0.5 *per cent* on the sales turnover. However, further scrutiny of records revealed that the turnover of dealers during the previous year had exceeded ₹ 50 lakh. As the conditions governing payment of tax at compounded rate were not fulfilled, the dealers were required to pay tax of ₹ 1.23 crore at the scheduled rates applicable to the sale of goods. The dealers, however, had paid tax of ₹ 0.18 crore only. This resulted in short levy of tax of ₹ 1.05 crore. The Assessing Authorities (AAs), however, failed to ensure payment of tax at correct rates.

After Audit pointed this out (April 2018 to March 2019), the AA of Selaiyur assessment circle had revised the assessment of the dealer for the year 2015-16 and collected a sum of ₹ 1.25 lakh and the action taken to revise the assessment for the year 2016-17 is awaited. The AA of Pammal assessment circle had revised the assessment and collected a sum of ₹ 1.44 lakh for the year 2016-17 and the action taken to revise the assessment for the year 2015-16 is awaited. The AA of Tiruppur Central I assessment circle had revised the assessment for one dealer for the year 2014-15 and collected a sum of ₹ 2.26 lakh and the action taken to revise the assessment for the year 2013-14 is awaited. Further, AAs of 11⁴¹ assessment circles replied that

⁴⁰ Adayar, Chinthadripet, Ganapathy, K.K.Nagar, Manali, Mandaveli, Nanganallur, Pammal, Peddunaickenpet, Perambur, Podhanur, Pollachi West, Royapettah, Selaiyur, Sembium, Tiruppur Central-I, Tiruppur Central-II, Tiruppur South and Vadapalani.

⁴¹ Adayar, Ganapathy, Manali, Nanganallur, Peddunaickenpet, Perambur, Podhanur, Royapettah, Sembium, Tiruppur South and Vadapalani.

notices were issued to dealers and final reply would be furnished to Audit. Reply in respect of the remaining five assessment circles is awaited.

Recommendation: The Department may ensure that cases of composition are clearly eligible under the provisions of Sections 3(4)(a) and 3(4)(b) and suitable action may be taken to collect the deficit tax in case of ineligible claim.

2.5.2 Incorrect grant of exemption

As per entry 69 of Part C of the First Schedule to the TNVAT Act, goods, for which no rate is specified elsewhere in the Schedule, are taxable at the rate of 14.5⁴² *per cent* from 12 July 2011. The CCT had clarified in May 2007 that coir pith would be classified as falling under entry 69 of Part C of the First Schedule.

Scrutiny of records in Pollachi East assessment circle (December 2018) revealed that a dealer, claiming exemption on the sale of Coir Pith Block, had not paid tax on the sales turnover of ₹ 1.09 crore during the year 2015-16. In the absence of specific entry and as per the clarification issued by the CCT, the Coir Pith Block are to be classified under entry 69 of Part C of the First Schedule and the sales turnover was required to be taxed at 14.5 *per cent*. The incorrect grant of exemption resulted in non-levy of tax of ₹ 15.76 lakh.

After audit pointed this out, the AA replied that notice was issued to the dealer. Further reply is awaited.

Recommendation: The Department may ensure that the exemption claimed by the dealers is in accordance with Act / Rule provisions and instructions issued by the CCT.

2.5.3 Incorrect computation of taxable turnover

As per Section 5 of the TNVAT Act, a works contractor shall pay tax on his taxable turnover, relating to his business of transfer of property in goods involved in the execution of works contract, at such rates as specified in the First Schedule. As per Rule 8(5)(d) of the TNVAT Rules 2007, while arriving at the taxable turnover, the amount towards labour charges and other charges shall be deducted from the contract value. If such amount is not ascertainable, the amount shall be calculated at the rate specified in column (3) of the Table below the Rule 8(5)(d) of the TNVAT Rules 2007. As per section 6 of the TNVAT Act, the works contractors opting to pay tax at the compounded rate, shall pay tax at the rate of two *per cent* on civil works contracts and at the rate of five *per cent* on other works contracts of the total contract value of works contract executed.

- Audit scrutiny (October 2018 to February 2019) in four⁴³ assessment circles revealed that six works contractors involved in dyeing, printing and other works contract (Coach building) had paid tax for the taxable

⁴² Taxable rate 12.5 *per cent* upto 11 July 2011.

⁴³ Adyar, Mettupalayam, Tiruppur South and Velachery.

turnover after deducting the labour and other charges as per the rate specified in column 3 of the Table below the Rule 8(5)(d), even though the actual quantum of labour charges and other charges were available in their annual accounts. Deduction of actual labour charges would increase the turnover of the dealers to ₹ 157.12 crore as against ₹ 102.14 crore adopted. Thus claiming of excess deduction towards labour charges (₹ 54.98 crore) resulted in short payment of tax of ₹ 2.90 crore. After audit pointed this out (October 2018 to February 2019), the AAs of Mettupalayam and Velachery assessment circles had replied that notices were issued to the dealers. Specific reply in respect of other cases are awaited.

- Audit scrutiny in Koyembedu and Sholinganallur assessment circles (April and October 2018) revealed that three works contractors paid compounded rate of tax on a turnover of ₹ 46.78 crore instead of the turnover of ₹ 75.22 crore declared in Form WW. The short computation of turnover by ₹ 28.44 crore resulted in short payment of tax of ₹ 56.87 lakh by the contractors. After audit pointed this out (April and October 2018), the AA of Sholinganallur assessment circle replied that tax is payable only on the construction value. The reply of the department is not acceptable to audit as the circular issued by the CCT dated 14 November 2014 stated that the compounded rate of tax has to be paid on the total value of work contract without deductions. The AA of Koyembedu assessment circle replied that notice was issued to the dealer. Further reply is awaited.

Recommendation: The Department may ensure that the taxable turnover in the monthly returns is determined as per Rule 8(5)(d) and tax paid accordingly.

2.5.4 Non-levy of purchase tax

Section 12 of the TNVAT Act specifies the circumstances under which a dealer had to pay the purchase tax at the rate specified in the TNVAT Act. As per entry 68 of fourth schedule read with entry 110 of first schedule to the TNVAT Act and section 12 of the Act, if the pulses and grams are purchased without payment of tax and stock transferred to other states without payment of tax then purchase tax at the rate of five percent had to be levied on the purchase price involved.

During the scrutiny of records in Royapuram assessment circle (May 2018), audit noticed that two dealers, who purchased pulses and grams for a value of ₹ 17.78 crore without payment of tax, had effected inter-State stock transfer of these goods. Hence, the dealers were liable to pay purchase tax on these goods. The non-payment of tax works out to ₹ 88.91 lakh on the value of purchases.

After Audit pointed this out (May 2018) in audit, the AA replied that notice would be issued to the dealer and the facts would be intimated to Audit. Response is awaited.

Recommendation: The Department may ensure that purchase tax is paid by dealers as per Section 12 of the TNVAT Act.

2.5.5 Taxable turnover escaping assessment

According to Section 21 of the TNVAT Act 2006, every dealer, liable to pay tax shall file return, in the prescribed form along with proof of payment of tax. According to Section 27 of the Act, the AA may assess any turnover escaped, within a period of six years from the date of original assessment after making such enquiry, as it may consider necessary. Section 27(3) provides for penalty up to 150 *per cent* of tax due on the assessable turnover.

The CCT, had issued detailed instructions in January 2013, January 2014 and June 2015, on the procedures to be adopted for assessment of monthly returns. Analysis of CTD data revealed the following instances of leakage of revenue due to failure to adhere to the instructions of CCT:

- Seventy five dealers of 43⁴⁴ assessment circles, whose RC was cancelled between April 2007 to December 2015 by AAs, continued to carry on business even after such cancellation, as Annexure I of the monthly returns of purchasing dealers revealed claim of ITC in respect of purchases effected from these dealers. However, the AAs had failed to assess the turnover of ₹ 135.17 crore that had escaped assessment from levy of tax. The tax due on such sales worked out to ₹ 10.85 crore besides penalty of ₹ 16.28 crore. After audit pointed this out (from April 2018 to March 2019), the AAs of Palladam, Podhanur and Tiruppur (North) assessment circle had raised demand of ₹ 16.69 lakh and penalty of ₹ 24.03 lakh (Between November 2019 and January 2020) for three dealers for which collection particulars are awaited. The AA of Velandipalayam assessment circle had stated (March 2020) that the AA of the purchasing circle dealers were addressed (February 2020) for reversal of ITC along with interest. The AAs of 24⁴⁵

⁴⁴ Ambattur, Big Bazaar Street, Chrompet, Evening Bazaar, Ganapathy, Gandhipuram, J.J.Nagar, Korattur, Mandaveli, Moore Market, Muthialpet, Nanganallur, Nanjappa Road, NSC Bose Road, Oppanakara Street, P.N.Palayam, Palladam, Pallavaram, Peddunaickenpet, Peelamedu South, Perambur, Perur, Podhanur, Pollachi East, Ponneri, Purasavakkam, R.S.Puram East, Ram Nagar, Saibaba Colony, Sembium, Sholinganallur, Tambaram, Thirukazhukundram, Tirumudivakkam, Thudiyalur, Tiruppur Central-II, Tiruppur North, Tiruppur South, Udumalaipet South, Vadapalani, Velandipalayam, Villivakkam and Washermanpet.

⁴⁵ Ambattur, Chrompet, Evening Bazaar, Ganapathy, Korattur, Nanjappa Road, Oppanakara street, Palladam, Pallavaram, Peddunaickenpet, Peelamedu South, Podhanur, Pollachi East, Ram Nagar, R.S.Puram East, Saibaba colony, Sholinganallur, Thirukazhukundram, Tirumudivakam, Thudiyalur, Tiruppur South, Tiruppur North, Vadapalani and Villivakkam.

assessment circles replied that notices were issued to 34 dealers. Further action taken in the remaining cases are awaited.

- Forty seven dealers of 27⁴⁶ assessment circles who did not file returns relating to the period 2015-16, had however, effected sale of goods as the monthly returns of the purchasing dealers indicated claim of ITC in respect of purchase of goods effected from these dealers who failed to file returns with CTD. The sales turnover that was not reported by the dealers was ₹ 79.57 crore. The tax leviable on such sales turnover was ₹ 5.96 crore besides penalty of ₹ 8.94 crore. After audit pointed this out (April 2018 to March 2019), the AA of Madipakkam assessment circle had revised the assessment of three dealers (November 2018 and July 2019) and raised demand of tax of ₹ 30.81 lakh and penalty of ₹ 35.09 lakh of which tax of ₹ 7.42 lakh was collected in December 2018. In respect of one dealer transferred from Podhanur assessment circle, the AA of Kuniyamuthur assessment circle replied that ₹ 0.59 lakh was collected by way of tax and penalty in June 2019. The AAs of 17⁴⁷ assessment circles replied that notices were issued to 22 dealers. Reply in respect of the remaining cases are awaited.
- Thirteen dealers in 11⁴⁸ assessment circles who filed 'Nil' returns during the year 2015-16, had however, effected sale of goods. This was evident from the monthly returns of the purchasing dealers which indicated claim of ITC in respect of purchase of goods effected from these dealers, who had filed 'Nil' returns with CTD. The turnover that was not disclosed by the dealers was ₹ 19.36 crore and the tax leviable on such sales was ₹ 1.57 crore besides penalty of ₹ 2.36 crore. After audit pointed this out (April 2018 to March 2019), the AA Gandhipuram replied (August 2019) that the assessment of two dealers were completed and demand of ₹ 9.38 lakh was raised. The AAs of the remaining 10 assessment circles replied that notices were issued to the dealers.

Recommendation: The Department may utilise the CTD data to identify escapement of turnover in the case of cancelled dealers, Non-filers of monthly returns and 'Nil' return filers and make timely revision of assessments.

⁴⁶ Ayanavaram, Ayyapanthangal, Gummidipoondi, J.J.Nagar, Kodambakkam, Koyambedu, Madipakkam, Medavakkam, Mettupalayam Road, MMDA Colony, Muthialpet, NSC Bose Road, Perambur, Podhanur, Pollachi East, Pollachi West, Poonamallee, Ramapuram, Sembium, Sholinganallur, Thirukazhukundram, Tiruvottiyur, Tiruppur Central-II, Tiruvallur, Vadapalani, Velacherry and Villivakkam.

⁴⁷ Ayyapanthangal, Kodambakkam, Koyambedu, Medavakkam, Mettupalayam Road, MMDA Colony, Muthialpet, Podhanur, Pollachi West, Poonamallee, Sembium, Sholinganallur, Thirukazhukundram, Tiruvottiyur, Tiruvallur, Velacherry and Villivakkam.

⁴⁸ Alandur, Ambattur, Anna Nagar, Gandhipuram, K.K.Nagar, MMDA Colony, Pallavaram, Thudiyalur, Tiruvallur, Vadapalani and Villivakkam.

2.5.6 Irregularities in claim of Input Tax Credit

i) Section 19(1) of the TNVAT Act as amended with effect from 14 October 2015 stipulates that there shall be ITC of the amount of tax paid under the Act, by the registered dealer to the seller on his purchases of taxable goods specified in the First Schedule, provided that the registered dealer, who claims ITC, shall establish that the tax due on purchase of goods has actually been paid in the manner prescribed by the registered dealer who sold such goods and that the goods have actually been delivered. Sec 19(15) of TNVAT Act, stipulates that where a registered dealer has purchased any taxable goods from another dealer and has availed ITC in respect of said goods and if the registration certificate (RC) of the selling dealer is cancelled by the appropriate registering authority, such registered dealer who has availed by way of ITC, shall pay the amount availed on the date from which the order of cancellation of RC takes effect. In addition to the amount due, such dealer shall be liable to pay interest at the rate of two percent per month on the amount of tax so payable for the period commencing from the date of claim of ITC by the dealer to the date of its payment. As per Rule 7(7) of the TNVAT Rules, 2007, every registered dealer who deals exclusively in goods specified in the Fourth Schedule to the Act or exempted from the levy of tax by a notification under Section 30, shall file return for each year in electronic Form I-1 on or before the 20th day of May of the succeeding year showing the actual total turnover for the year.

Data analysis of claims of ITC revealed that the purchasing dealers had claimed ITC of ₹ 35.93 crore on the purchases made from the dealers whose RCs were cancelled, who had not filed returns, who had filed annual returns etc., as detailed below. As the tax on such claim of ITC was not paid by the selling dealers and not remitted to the exchequer, the claim of ITC of ₹ 35.93 crore had to be recovered.

- 95 dealers in 39⁴⁹ assessment circles had claimed incorrect ITC of ₹ 24.60 crore based on the purchases of ₹ 402.39 crore effected from April 2016 to March 2017, in respect of invoices raised by cancelled dealers. After audit pointed this out, AA of the Avinashi assessment circle had replied that the dealer had paid the tax for the purchases made. The reply of the department requires reconsideration in view of the amended provision⁵⁰ which mandate establishing of payment of tax on purchase of goods. The AA of Saibaba Colony assessment circle had stated that an amount of ₹ 2.41 lakh was collected in respect of one dealer. The

⁴⁹ Adayar, Amaidakalai, Ambattur, Ashok Nagar, Avinashi, Ayyappanthangal, Chempauk, Choolai, Chrompet, DLTU Coimbatore, Evening Bazaar, Harbour, Korattur, Koyambedu, LTU-II Chennai, LTU-III Chennai, LTU-IV Chennai, Muthialpet, Nandanam, Nungambakkam, Oragadam, Pallavaram, Periamet, Pollachi Rural, Pongy Bazaar, Poonamallee, Purasaiwakkam, Royapettah, Saibaba Colony, Saidapet, Sriperumbudur, Thirukazhukundran, Thiruvannamiyur, Tiruvottiyur, Tiruppur Central-I, Tiruppur Rural, Udumalaipet South, Velacherry and Washermenpet.

⁵⁰ Amended provision w.e.f. 14 October 2015.

AAs of 27⁵¹ assessment circles had replied that notices were issued to the dealers. Reply in respect of other cases are awaited.

- 49 dealers in 32⁵² assessment circles had claimed incorrect ITC of ₹ 7.02 crore based on the purchases of ₹ 106 crore effected from April 2016 to March 2017, in respect of invoices raised by dealers who had not filed returns. After audit pointed out this, the AA of the Tiruvottiyur assessment circle citing the Honourable High Court of Madras judgment wherein it was held that ITC availed by the petitioner could not have been proposed to be reversed or reversed on the grounds that the selling dealer had not filed returns or not paid taxes. The reply of the department requires reconsideration in view of the amended provision which mandate establishing of payment of tax on purchase of goods. The AA of Chrompet assessment circle had revised the assessment of the dealer (December 2018) and raised an additional demand of ₹ 11 lakh and the collection particulars thereof is awaited. The AAs of 18⁵³ assessment circles had replied that notices were issued to the dealers. Reply in respect of the remaining cases are awaited.
- 13 dealers in 6⁵⁴ assessment circles had claimed incorrect ITC of ₹ 2.38 crore based on the purchases of ₹ 45.90 crore effected from April 2016 to March 2017, in respect of invoices raised by dealers who had filed annual returns. After audit pointed this out, the AA of Ganapathy assessment circle had revised the assessment of the dealer and raised an additional demand of ₹ 3.15 lakh. The AAs of three⁵⁵ assessment circles replied that notices were issued to dealers. Reply in respect of the remaining cases are awaited.
- Scrutiny of records (January 2019) in the office of the Divisional Large Tax Payers Unit, Coimbatore revealed that a dealer had taken ITC credit of ₹ 1.93 crore during the period 2016-17 for the purchases stated to have been effected from Indian Overseas Bank, Chennai. Further scrutiny of details of sales effected by Indian Overseas Bank, Chennai indicated that no such sales was made to the dealer, resulted in incorrect claim of ITC of ₹ 1.93

⁵¹ Amaindakarai, Ambattur, Ashok Nagar, Ayyappanthangal, Choolai, DLTU Coimbatore, Evening Bazaar, Harbour, Koyambedu, LTU-II Chennai, LTU-III Chennai, Nandanam, Nungambakkam, Oragadam, Pallavaram, Periamet, Pollachi Rural, Pondy Bazaar, Poonamallee, Purasaiwakkam, Royapettah, Sriperumbudur, Thirukazhukundran, Thiruvanniyur, Tiruppur Central-I, Tiruppur Rural and Velacherry.

⁵² Amaindakarai, Avarampalayam, Avinashi, Ayyappanthangal, Big Bazaar Street, Chrompet, DLTU Coimbatore, Eakattuthangal, Esplanade, Harbour, Kanchipuram, Korattur, Koyambedu, LTU-III Chennai, LTU-IV Chennai, Muthialpet, Mylapore, Nungambakkam, Peelamedu North, Pondy Bazaar, Poonamallee, Porur, Royapettah, Saidapet, Sriperumbudur, Thirukazhukundran, Thirumudivakkam, Thiruverkadu, Tiruvottiyur, Tiruppur Rural, Vanagaram and Velacherry.

⁵³ Amaindakarai, Avinashi, Ayyappanthangal, Big Bazaar Street, DLTU Coimbatore, Eakattuthangal, Kanchipuram, Koyambedu, LTU-III Chennai, Mylapore, Pondy Bazaar, Poonamallee, Royapettah, Saidapet, Thirumudivakkam, Thiruverkadu, Tiruvottiyur and Vanagaram.

⁵⁴ Alandur, Chindadripet, Ganapathy, Gummidipoondi, Manali and Tiruvallur.

⁵⁵ Alandur, Chindadripet and Tiruvallur.

crore. After audit pointed this out, the AA replied that notice was issued to the dealer. Further reply is awaited.

ii) As per Section 19(11) of the TNVAT Act, in case any registered dealer fails to claim ITC in respect of any transaction of taxable purchase in any month, he shall make the claim before the end of the financial year or before 90 days from the date of purchase, whichever is later. As per Section 27(2) of the TNVAT Act, where for any reason, the ITC has been availed wrongly, the AA shall reverse the ITC availed. Section 27(4) of the Act, *ibid*, provides for levy of penalty at the specified rates.

- Scrutiny of records (April 2018 to February 2019) in eight⁵⁶ assessment circles revealed that 9 dealers had, in the monthly returns of July 2014 to April 2016, claimed ITC of ₹ 2.94 crore in respect of purchase of goods effected between August 2013 and December 2015. As the claim of ITC was not preferred within the prescribed time, the same had to be disallowed and the amount recovered from the dealers. The AAs, however, failed to invoke the provisions of Section 19 (11) of the Act and allowed the time barred claim of ITC. The incorrect claim of ITC of ₹ 2.94 crore was required to be reversed, besides levying of penalty.

After audit pointed this out (April 2018 to February 2019), the AA, Nandambakkam assessment circle replied that the claim of ITC was made after payment made by the purchasing dealer as per the amended provisions in Section 19(1). The reply requires reconsideration since the ITC has to be claimed within the time limit as prescribed in Section 19(11) of the Act *ibid* and the amended provision will not alter the time limit fixed for claim of ITC. The AAs of Palladam, Thudiyalur and Tiruthani assessment circles have stated that notices were issued to the dealers. Reply in respect of other assessment circles is awaited.

iii) Section 19(2) of the TNVAT Act provides that ITC shall be allowed for the purchase of goods made within the State from a registered dealer and which are for the purpose of using as inputs in manufacturing or processing of goods in the State or use as capital goods in the manufacture of taxable goods.

- Scrutiny of records (July 2018) in N.S.C.Bose Road assessment circle revealed that a dealer who is not dealing in the business of AC had claimed ITC of ₹ 12.28 lakh during the period 2016-17, on purchase of AC equipment.
- Scrutiny of records (March 2019) in LTU-III assessment circle, Chennai revealed that one dealer had claimed ITC of ₹ 44.62 lakh on safety equipment which is neither an input nor capital goods.

⁵⁶ Alandur, Nandambakkam, N.S.C. Bose Road, Palladam, Purasaivakam, Ramapuram, Thudiyalur and Tiruthani.

After audit pointed this out (July 2018 and March 2019), AA of LTU-III, Chennai assessment circle has replied that notice was issued to the dealer. Reply in respect of other assessment circle is awaited.

iv) The Government of India, Ministry of Textiles vide Notification No.12020/03/2016-IT dated 12 August 2016, had introduced the Rebate of State Levies on Export of Garments 2016 (ROSL scheme) so as to give rebate on State levies like VAT/Central Sales Tax (CST) along with duty drawback scheme. This scheme came in to effect from 20 September 2016. As per para 4.2 of the Notification, the rate and rebate shall be applicable only to exporters if the exporter has not claimed or shall not claim credit/rebate/refund/reimbursement of these specific State Levies under any other mechanism.

Audit scrutiny of monthly returns, Form WW and Balance Sheet of the six dealers in three⁵⁷ assessment circles revealed that though the dealers had received an amount of ₹ 10.93 crore under ROSL scheme during the year 2016-17, they had also availed ITC of ₹ 3.42 crore for the same period. The incorrect availing of ITC of ₹ 3.42 crore, which was against the provisions of ROSL scheme, needs to be recovered from the dealer.

After audit pointed this out (April 2018 to March 2019), AA, Harbour assessment circle replied that notice was issued to the dealer and accounts were rechecked and the dealer had paid ₹ 29.10 lakh including interest of ₹ 9.77 lakh (January 2019). Reply in respect of the remaining two assessment circles is awaited.

Recommendation: The Department may make use of data available to verify the veracity of ITC claims in accordance of various provisions of Act and Rules and also to identify and disallow time-barred and excess claims.

2.5.7 Non/Short reversal of Input Tax credit

As per Section 19(5)(c) of the TNVAT Act, no ITC shall be allowed on the purchase of goods sold as such or used in the manufacture of other goods and sold in the course of interstate trade or commerce without declaration in Form C. As per Section 19(5)(a) of the TNVAT Act, ITC is not available in respect of sale of goods exempt from levy of tax. Sale of goods to SEZ located in other States is exempt as per Section 8(6) of the CST Act.

During scrutiny of records in 27⁵⁸ assessment circles (between April 2018 and March 2019), Audit noticed from the CST returns and Form WW filed by the dealers that interstate sale of goods without declarations in Form C, interstate sale of goods to SEZ located in other States, stock transfer of goods to other

⁵⁷ DLTU Coimbatore, Harbour and Tiruppur Rural.

⁵⁸ Alwarpet, Anna Salai, Avinashi, Chrompet, DLTU Coimbatore, K.K.Nagar, Kancheeruram, Kotturpuram, LTU-II Chennai, Medavakkam, Moore Market, Nandambakkam, Nanganallur, Park Town, Peelamedu South, Purasawakkam, R.S.Puram West, Ramapuram, Saibaba Colony, Thiruverkadu, Thudiyalur, Tiruppur Central-I, Tiruppur Central-II, Tiruppur North, Vadapalani, Valluvarkottam and Villivakkam.

States and sale of exempted goods were effected by 51 dealers during the period from 2008-09 to 2016-17. Scrutiny of the returns filed by the dealers under the TNVAT Act, however, revealed that the above dealers had claimed ITC of ₹ 149.20 crore during the above period and sold goods in the interstate without declaration forms, effected sale of exempted goods and made stock transfer of goods for a total value of ₹ 1,586.06 crore. Though the reversal of ITC on the above account worked out to ₹ 20.18 crore, the dealers had effected reversal of ITC only for ₹ 11.69 crore resulting in non/short reversal of ITC of ₹ 8.49 crore proportionate to such sales.

After Audit pointed this out (April 2018 to March 2019), the AA of Vadapalani and Tiruppur Central-I assessment circles had rechecked the accounts of three dealers and revised the assessment (October 2019) raising an additional demand of ₹ 25.91 lakh out of which an amount of ₹ 11 lakh pertaining to Vadapalani assessment circle was collected. Collection particulars in respect of Tiruppur Central-I assessment circle is awaited. The AAs of 11⁵⁹ assessment circles replied that notices were issued to fourteen dealers. Further action taken on the notices issued and reply in respect of the remaining cases were awaited.

Recommendation: The Department may ensure restriction of claims to eligibility and add back ineligible claims to tax demand.

2.5.8 Non-levy of interest for belated payment of tax

According to Section 42(3) of the TNVAT Act, interest at the rate of 2 *per cent* per month is payable on the belated payment of unpaid tax.

Scrutiny of records in LTU-I and II assessment circles, Chennai (February and March 2019) revealed that seven dealers had paid tax of ₹ 131.44 crore belatedly; the delay ranging from two days to 224 days. The belated payment of tax attracts levy of interest of ₹ 2.35 crore. The AAs, however, failed to levy interest for belated payment of tax. This resulted in non-levy of interest of ₹ 2.35 crore.

After Audit pointed this out (February and March 2019), the AA of LTU-I, Chennai replied that notices were issued to two dealers. Reply in respect of the LTU-II, Chennai assessment circle is awaited.

Recommendation: The Department may establish a mechanism for automatic levy of interest for belated payment of taxes.

⁵⁹ Medavakkam, Nanganallur, Thiruverkadu, Saibaba colony, Purasawakkam, Moore market, Alwarpet, Tiruuppur (North), LTU II Chennai, Valluvarkottam and R.S.Puram.

2.5.9 Failure to initiate action on the advice of the auditor contained in the certificate of audited accounts in Form WW

Section 63-A(1) of the TNVAT Act read with Rule 16-A of the TNVAT Rules provides that every registered dealer whose total turnover in a year exceeds ₹ one crore, shall get his accounts in respect of that year, audited by an Accountant and submit a report of such audit in Form WW duly signed and verified by the Accountant to the AA within nine months from the closure of the financial year.

The CCT instructed (February 2014) the AAs to undertake the exercise of verification of consolidated monthly returns submitted in the financial year and the extracts of defects noticed in return scrutiny / audit menus available in the MIS package of intranet along with the corresponding audited statement to identify prospective revenue.

Scrutiny of the certificate of audited accounts in Form WW relating to the years 2013-14 to 2016-17 filed by the dealers indicated that the Accountants had suggested payment of differential tax, interest and reversal of ITC amounting to ₹ 2.06 crore in respect of 222 dealers. The AAs of 27⁶⁰ assessment circles, however, did not initiate any action to recover the amounts due from the dealers based on the suggestion of the Accountant made in Form WW.

After Audit pointed this out, the AA of four⁶¹ assessment circles had collected a sum of ₹ 15.83 lakh in respect of 19 dealers (Between December 2018 and July 2019). The AAs of nine⁶² assessment circles replied that notices have been issued to the dealers. Specific reply from the remaining AAs are awaited.

Recommendation: The Department may make use of auditors' advice in Form WW to identify deficit payments of tax and act accordingly.

⁶⁰ Amaindakarai, Ashok Nagar, Broadway, Chengalpet, Chindadripet, Chrompet, Gandhipuram, Manali, Mandaveli, Nanganallur, Nolambur, Oragadam, Poonamallee, Ram Nagar, Ramapuram, Saidapet, Sembium, Sowcarpet, Sriperumbudur, Tambaram, Thirukazhukundram, Tiruppur Central-I, Tirupur Bazaar, Tiruvallur, Vadapalani, Villivakkam and Washermenpet.

⁶¹ Chindadripet, Chrompet, Gandhipuram and Ram Nagar.

⁶² Amaindakarai, Broadway, Nolambur, Poonamallee, Ram Nagar, Thirukazhukundram, Tiruppur Bazaar, Tiruvallur and Villivakkam.

Central Sales Tax

2.5.10 Application of Incorrect rate of tax

According to Section 8(2) of the Central Sales Tax Act, 1956 (CST Act), inter-State sale of goods not covered by valid declarations in Form 'C' is assessable to tax at the local rate applicable to sale of such goods inside the State. As per entry 67 of Part B of the First Schedule to the TNVAT Act, industrial inputs, for use in manufacture, inside the State, of goods other than those falling under Second Schedule were taxable at the rate of four *per cent* up to 11 July 2011 and at five *per cent* thereafter. Any other goods not specified in any of the Schedules were taxable at the rates of 12.5 *per cent* up to 11 July 2011 and at 14.5 *per cent* thereafter under entry 69 of Part C of the First Schedule.

Scrutiny of records (April 2018 to February 2019) in six⁶³ assessment circles revealed that the AAs while finalising the assessment of seven dealers for the years 2009-10 to 2016-17 under the CST Act, levied tax at the rate of four / five *per cent* on inter-State sale of capital goods / industrial inputs namely, panel cooler, moulds, auto components, machineries, conveyor belts and cement products not covered by declarations in Form 'C'. As inter-State sales of capital goods and industrial inputs do not satisfy the condition "used in the State for the purpose of manufacture", the sales were taxable at the rate of 12.5 *per cent* / 14.5 *per cent* in terms of Section 8(2) of the CST Act. The application of incorrect rate of tax at the rate of four *per cent* instead of 12.5 *per cent* (up to 11 July 2011) and at five *per cent* instead of 14.5 *per cent* with effect from 12 July 2011, on the interstate sale value of ₹ 12.15 crore had resulted in short levy of tax of ₹ 1.15 crore.

After audit pointed this out (April 2018 to February 2019), the AAs of three⁶⁴ assessment circles had revised assessment of three dealers (Between September 2018 and June 2019) and raised demand of ₹ 26.44 lakh out of which a sum of ₹ 15.50 lakh was collected in respect of two dealers in Big Bazaar and Selaiyur assessment circles and in the remaining one case, collection particulars are awaited. The AA of Tiruvallur assessment circle stated that the goods sold is not the final product and relates to import of mould. The reply is not acceptable since the rate of tax to be levied is based on the classification of goods irrespective of whether it is final product or imported. The AAs of Kotturpuram and Nanganallur assessment circles replied that notices were issued to the dealers. Further action taken is awaited.

Recommendation: The Department may ensure correctness of rates of tax and classification of goods while completing assessments.

⁶³ Big Bazaar Street, Kotturpuram, Nanganallur, R.S.Puram East, Selaiyur and Tiruvallur.

⁶⁴ Big Bazaar Street, R.S.Puram East and Selaiyur.

2.5.11 Short levy of tax due to arithmetical inaccuracy

According to Section 8(2) of the CST Act, inter-State sale of goods not covered by valid forms is assessable to tax at the local rate applicable to sale of such goods inside the State.

Audit scrutiny at KK Nagar assessment circle (August 2018) revealed that the AA while finalising the assessment of a dealer had computed the tax at the rate of 14.5 *per cent* for the export turnover of ₹ 3.33 crore as ₹ 4.79 lakh instead of ₹ 47.94 lakh due to arithmetical error. This had resulted in short levy of tax of ₹ 43.15 lakh. After audit pointed this out (August 2018), the AA replied that notice would be issued to the dealer.

Recommendation: The Department may avoid, while making assessments, *prima-facie* errors that result in short collection of tax.

The issues mentioned in the Paragraphs No. 2.5.1 to 2.5.11 were referred to the Government in October 2019 and reminded in January, March and June 2020. Reply is awaited (October 2020).

PART-A

CHAPTER III

STATE EXCISE

3.1 Tax administration

The Commissioner (Prohibition & Excise) is the head of the Department who administers the Tamil Nadu Prohibition Act, 1937 and various other Acts/Rules. He is under the administrative control of the Additional Chief Secretary, Home, Prohibition and Excise Department. He is assisted by Joint Commissioners and Assistant Commissioners at Headquarters level and Distillery Officers, Excise Supervisory Officers at distilleries and breweries (at manufactory level). A Financial Controller, deputed from the Finance Department, helps the Commissioner in controlling the financial matters. The District Collectors supervise the excise administration at district level, assisted by Deputy/Assistant Commissioners of Excise.

3.2 Results of audit

Test check of records revealed non/short collection of excise duty, licence fees and other irregularities amounting to ₹ 441.91 crore, which broadly fall under the following categories given in Table No. 3.1.

Table No. 3.1: Results of Audit

(₹ in crore)			
Sl. No.	Category	No. of cases	Amount
1	Performance Audit on 'Receipts under State Excise'	1	441.88
2	Others	2	0.03
	Total	3	441.91

During the course of the year 2018-19 and 2019-20, after Audit pointed out, the department accepted the audit observations in 26 cases and recovered a sum of ₹ 129.36 crore. Out of these cases, money value of ₹ 127.85 crore was pointed out in the Performance Audit conducted during the year and the rest in earlier years.

The observations included in the Performance Audit on 'Receipts under State Excise' involving ₹ 441.88 crore are discussed in the following paragraphs.

3.3 Performance Audit on 'Receipts under State Excise'

3.3.1 Introduction

The Constitution of India, by virtue of Entries 8 and 51 of the State List in the Seventh Schedule, empowers the Legislature of any State to make laws with respect to production, manufacture, possession, transport, purchase and sale of

intoxicating liquors and for levying excise duty on alcoholic liquors for human consumption manufactured in the State. The levy of Excise duty, fee etc., is governed by the provisions contained in the Tamil Nadu Prohibition Act, 1937 and Rules made thereunder. Excise revenue comprises Excise duty, Privilege fee, Licence fee, Import fee, Brand registration and renewal fee etc. Excise revenue is the third largest revenue of the State next to Goods and Services Tax / Value Added Tax (VAT) and Stamp Duty & Registration Fee (Refer Paragraph Number 1.1.2). M/s Tamil Nadu State Marketing Corporation Ltd (TASMAC), a wholly owned Government Company functioning under the direct control of the Government, regulates the wholesale and retail vending of Indian Made Foreign Spirits (IMFS) and Beer.

3.3.2 Organisational Structure

The Commissioner (Prohibition & Excise) is the head of Home (Prohibition & Excise) Department (Department), functioning under the administrative control of the Additional Chief Secretary (Home). The Commissioner is empowered to administer and monitor various provisions of Tamil Nadu Prohibition Act, 1937 and Rules made thereunder. He is assisted by Joint Commissioners / Deputy Commissioners / Assistant Commissioners and Excise Supervisory officers (ESOs). A Financial Controller deputed from Finance Department assists the Commissioner in controlling the financial matters. The major functions of the department involve issue of various categories of licences, collection of duties and fees and implementation of the provisions of various Acts and Rules.

3.3.3 Audit Objectives

The Performance Audit was taken up to derive assurance on the following objectives:

- ascertain the level of compliance with the Departmental terms and conditions for issue and renewal of various licences;
- whether the provisions relating to prohibition, levy, payment and collection of excise duty, fees etc., are complied with; and
- whether the Department is effectively preventing revenue leakages through better enforcement and internal control.

3.3.4 Audit Criteria

The following Acts and Rules are the sources of criteria for the conduct of this Performance Audit:

- Tamil Nadu Prohibition Act, 1937.
- Tamil Nadu Molasses Control and Regulation Rules, 1958.
- Tamil Nadu Distilleries Rules, 1981.
- Tamil Nadu Indian made Foreign Spirits (Manufacture) Rules, 1981.
- Tamil Nadu Liquor (Licence & Permit) Rules, 1981.
- Tamil Nadu Brewery Rules, 1983.

- Tamil Nadu Indian made Foreign Spirit (Supply by Wholesale) Rules, 1983.
- Tamil Nadu Mass Wine Rules, 1984.
- Tamil Nadu Rectified Spirit Rules, 2000.
- Tamil Nadu Liquor Retail Vending (In Shops and Bars) Rules 2003.
- Tamil Nadu Wine (Manufacture) Rules, 2006.

3.3.5 Audit Scope and Methodology

A Performance Audit of Excise Department was conducted in 2012 covering the transactions during the period from 2006-07 to 2010-11 and four recommendations were given for consideration of the Government. The Explanatory Notes are yet to be furnished. The present Performance Audit was conducted from April 2019 to March 2020 to cover the transactions for the period 2014-15 to 2018-19. The issues covered in the previous performance audit (2012) were followed up and remarks thereon have been incorporated suitably.

3.3.6 Audit Sampling

Audit selected all 36 operational field offices (ESOs in the manufacturing units) and 16¹ out of 32 offices (50 per cent) of the Deputy Commissioners / Assistant Commissioners (District Offices) based on stratified sampling for the purpose of this performance audit, as listed in the table below:

Table No.3.2: Audit Sampling

Nature of office	Offices supervised by	Total No. of Units	No. of Units covered
Operational Field offices	ESO, IMFS	11	10*
	ESO, Breweries	7	7
	ESO, Winery	1	1
	ESO, Distilleries	19	18*
	Total	38	36
District Offices	Deputy Commissioners / Assistant Commissioners	32	16
Overall Coverage		70	52

*One IMFS unit and one Distillery Unit were not functioning².

Besides, the Office of the Commissioner, Office of the Prohibition Enforcement Wing (PEW) and the Head Office of the TASMAL were also visited for verification of records.

¹ Chennai, Coimbatore, Cuddalore, Dindigul, Erode, Kancheepuram, Nagercoil, Madurai, Nilgiris, Salem, Tanjavur, Theni, Thiruchirapalli, Thiruppur, Thiruvallur and Virudhunagar

² M/s Empee Distilleries Ltd., Kancheepuram and M/s. Trichy Distilleries and Chemicals Ltd., Trichy

3.3.7 Acknowledgement

An entry conference was held with the Additional Chief Secretary to Government, Home (Prohibition & Excise) Department on 05 July 2019 in which audit objectives, criteria, scope and methodology were explained in detail. Audit acknowledges the co-operation extended by the department, the PEW and TASMACH for providing necessary records and information. The Exit conference was held on 27 May 2020. The views expressed during the Exit Conference have been suitably incorporated in the report. During the course of this performance audit, observations involving a money value of ₹ 441.88 crore were raised, out of which the Department collected a sum of ₹ 127.85 crore.

3.3.8 Trend of Revenue

The budget estimates and actual realisation of excise revenue for the period from 2014-15 to 2018-19 is given in Table No. 3.3 below.

Table No. 3.3: Trend of Revenue

(₹ in crore)

Year	Excise duty and allied revenues*				
	Budget Estimate	Revenue realised	Short fall over estimate	Percentage of variation	Reasons furnished by Department for shortfall in actual revenue when compared to estimates
2014-15	6,483.04	5,731.18	751.86	11.60	Abolition of Special Privilege fee from 1 April 2014.
2015-16	7,296.67	5,836.02	1,460.65	20.02	
2016-17	6,636.08	6,248.16	387.92	5.85	Reduction in working hours of TASMACH
2017-18	6,902.91	5,815.30	1,087.61	15.76	Closure of shops situated at National and State Highways due to Supreme Court's orders
2018-19	6,997.83	6,863.12	134.71	1.93	-

(Source: *Finance Accounts of Government of Tamil Nadu)

As seen from the table, excise duty and allied revenues³ showed an increase in trend during the period of audit except in 2017-18 when the Honourable Supreme Court ordered closure of shops situated in highways. The average cost of collection during the five years was 1.65 per cent of the excise revenue collected.

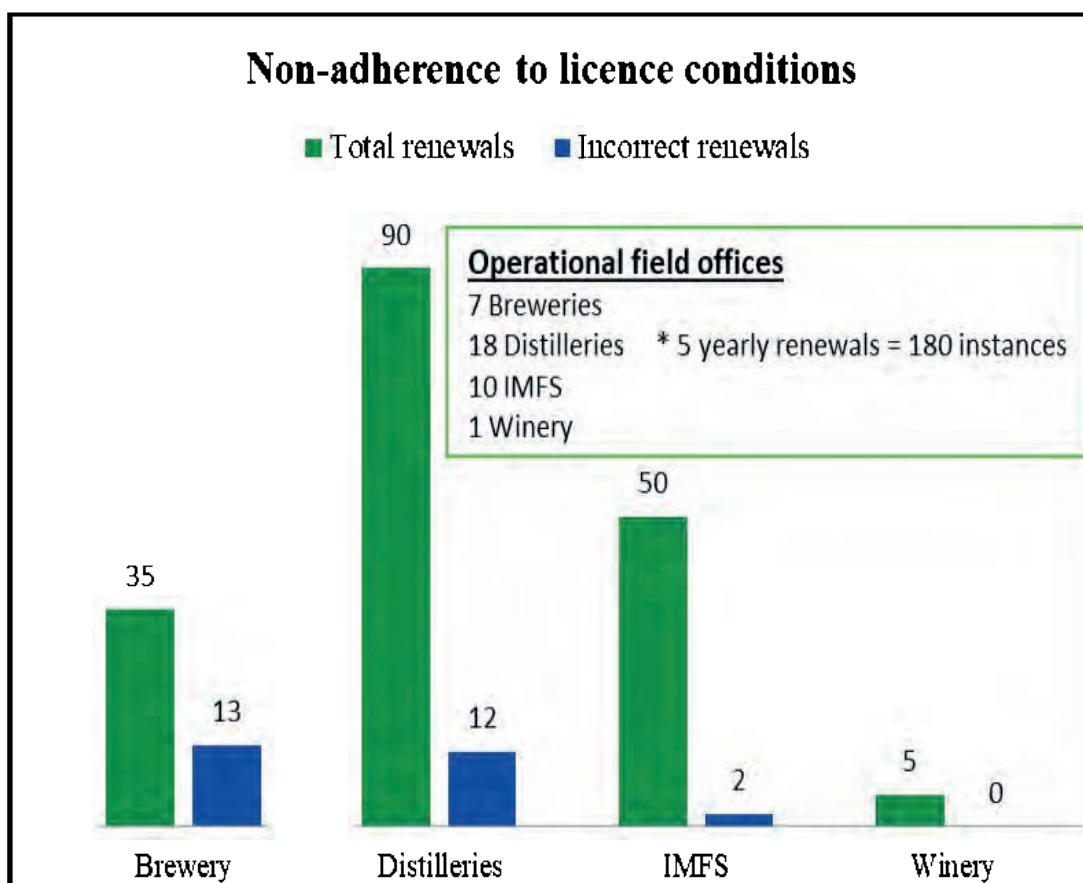
³ Application Fee, Licence Fee, Privilege Fee, Additional Privilege Fee, Spirit Import Fee, Molasses Administrative Service Fee, Administrative Service Fee, Export Licence Fee, Import Permit Fee, Brand Registration Fee and Label Approval Fee.

Audit Findings**3.3.9 Adherence to Licence Conditions****3.3.9.1 Violations by manufactories**

As per Section 17 B of the Tamil Nadu Prohibition Act, 1937, the Commissioner, subject to such conditions as may be prescribed, issue licence to any person or any institution. The licence is valid for one year (April to March). As per Section 23 (1) (a) and (b), the Commissioner is empowered to suspend or cancel the licences if fee is not paid or the conditions of licences are violated. The application for renewal of licence is submitted to ESO, who recommends the renewal of the application and forwards it to the Joint Commissioner. The Joint Commissioner, after physical verification of the unit recommends the renewal, based on which it is granted by the Commissioner.

Audit checked the records in 36 operational field offices and identified irregularities in respect of collection of brand renewal fee and production of pollution certificates in 27 out of a total of 180 instances of issuance of licences as represented in the chart and following paragraphs.

Chart 3.1 : Non-adherence to licence conditions



However, no penal action of suspension or cancellation was initiated. Instead, the ESO recommended renewal of the licences in subsequent years. The Commissioner renewed the licences based on the inspection report submitted by the Joint Commissioner. The irregularities are discussed below:

➤ **Incorrect renewal without collecting the Brand renewal fees**

As per Rule 13 and 16 of the Tamil Nadu Wine (Manufacture) Rules, 2006, a fee of ₹ 2 lakh and ₹ 5,000 are payable for renewal of brand and brand label respectively. Further, vide Order⁴ issued in November 1998, a registration fee of ₹ 2 lakh and renewal fee of ₹ 2 lakh was leviable for each brand of other forms of liquor, *i.e.* beer and Indian made foreign spirits. Audit noticed the following shortcomings in collection of brand renewal fee.

• **Non-collection of Brand Renewal Fees**

It was seen that in respect of two (ESO, M/s. United Breweries Ltd., and ESO, M/s. Mohan Breweries and Distilleries Ltd., (IMFL)) out of 36 operational field offices the Department renewed the licences in three cases without collecting applicable Brand Renewal fee. This worked out to ₹ 21.11 lakh including GST on the brand renewal fee. On this being pointed out, the Department replied (May 2020) that based on the audit observation, the amount of ₹ 21.11 lakh was collected.

• **Non-collection of Brand registration fee and Brand renewal fee for the brands allowed for export**

In respect of three⁵ operational field offices, in nine cases of renewal, beer brands were permitted to be exported without payment of brand registration / renewal fee of ₹ 28 lakh. On this being pointed out (March 2020), the Department replied (May 2020) that a proposal was sent (September 2017) to the Government to issue orders for fixing the registration/renewal fee and label approval fee for all the beer brands permitted to be exported to other states and other countries. However, the response from the Government is yet to be received.

➤ **Incorrect renewal of licences without production of Pollution Control clearance certificates**

The conditions governing issue of licences for manufactories require production of the Pollution Control Board (PCB) clearance certificates within 60 days from the date of renewal proceedings. Audit noticed that in 15 cases

⁴ G.O.Ms.No.248, Prohibition and Excise (III) Department dated 25 November 1998.

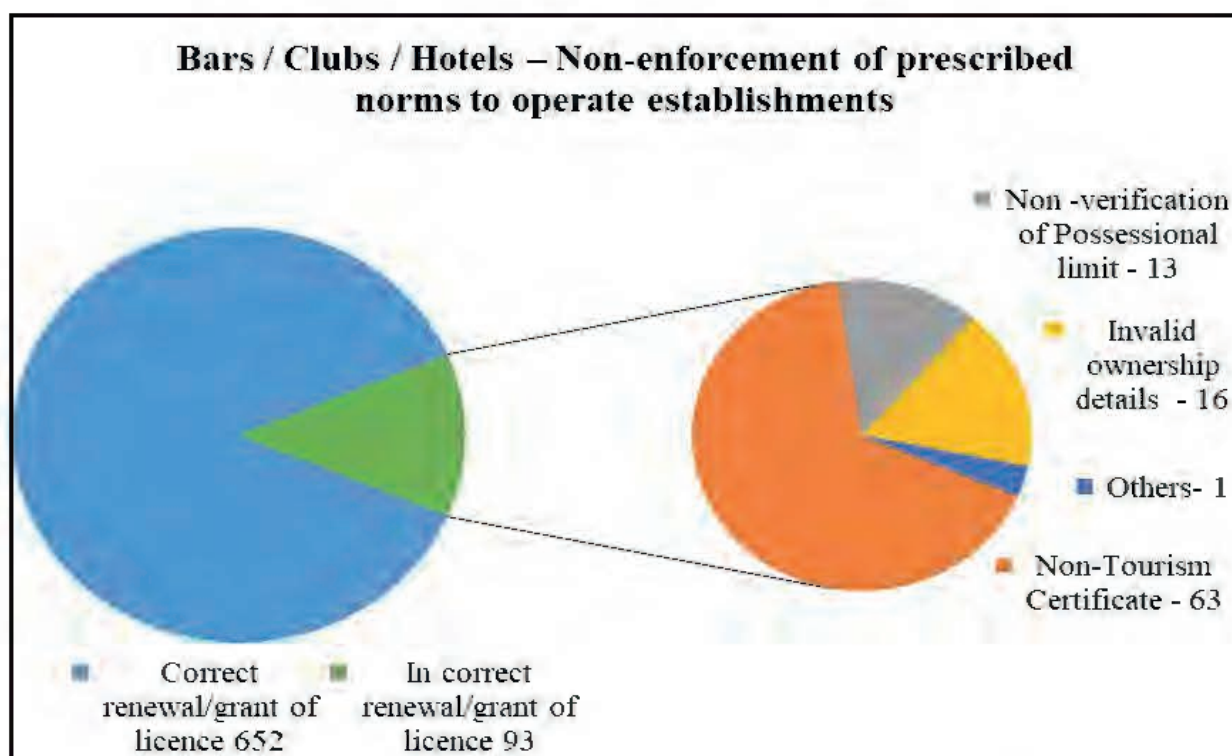
⁵ ESO, SNJ Breweries (P) Ltd., ESO, M/s. Accord Distillers & Brewers PVT Ltd., and ESO., KALS Breweries (P) Ltd.

noticed in respect of eight⁶ operational field offices, the Department accorded further renewals of licence without PCB clearance. It is pertinent to mention that this is one of the requirements of granting licences, especially in cases of polluting industries which release effluents into air and water. The casual attitude of the Department in ensuring mandatory PCB clearance before renewal of licences has the potential to put the environment at risk.

On this being pointed out (March 2020), the Department replied (May 2020) that PCB consent was obtained in respect of three operational field offices and certificates for the remaining five operational field offices would be obtained and furnished to audit.

3.3.9.2 Violation of licence conditions by Clubs and Hotels

The Commissioner is empowered to issue / renew FL2 (licence for possession of liquor by Clubs) and FL3 (licence for possession of liquor by the Star Hotels) licences on fulfillment of prescribed conditions.



Audit scrutinised 745 licences (673 renewed licences and 72 new licences) issued during 2014-15 to 2018-19 and identified irregularities in 93 cases as detailed below:

⁶ ESO, Appollo Distilleries & Breweries (P) Ltd., Thiruvallur District, ESO, Mohan Breweries & Distilleries Ltd (Brewery), Thiruvallur District, ESO, Thiru Arooran Sugars Ltd, ESO, Salem Co-operative Sugar Mills Ltd, ESO, Amaravathi Co-operative Sugar Mills Ltd, ESO, Bhavani Distilleries and Chemicals Ltd, ESO, Southern Agrifurane Industries Ltd, ESO, Mohan Breweries and Distilleries Ltd (IMFS).

➤ **Incorrect issue of licences without Tourism Certificates**

As per Rule 17 (a) (A) of The Tamil Nadu Liquor (Licence & Permit) Rules, 1981, FL 3 licences are issued for possession of liquor by the Star Hotels. According to Rule 2 (xvi), a Star Hotel includes a beach resort hotel, and also satisfies the criteria, stipulated by the Directorate of Tourism (DOT), that the entity should be certified as having an exclusive dining room.

It was seen that FL 3 licence was issued to 63 out of 72 new licencees without certification from DOT. Further, in one case, the licence was issued despite clear mention in the DOT certificate that the licensee did not have a separate dining room.

During the Exit Conference, it was replied that FL3 licences were issued only after receipt of certificate issued by Director of Tourism and the same would be furnished to audit. Out of 63 cases, the Department (May 2020) forwarded copies of certificates for five cases only. In addition, the reply in respect of one case mentioned above relating to non-availability of separate dining room was not furnished.

➤ **Incorrect renewal of licences without valid ownership documents**

The conditions governing issue of licence require ownership of premises - either absolute or lease ownership. In this regard, it may be noted that only a registered document is a valid evidence for ownership and only based on this evidence licence can be issued / renewed.

According to Section 17 of Registration Act 1908, lease documents involving a period of more than one year are compulsorily required to be registered. Further, as per Section 49, in order to be treated as evidence, the lease document should be registered.

It was seen that licences were issued / renewed in 195 cases based on lease documents which are valid for a period of more than a year and 16 of them were not registered under the Registration Act. Prior to issue / renewal of licences, the Department should have called for registered lease documents to ensure the ownership of the premises in favour of the licensee. The non-registration also resulted in non-realisation of ₹ 67.22 lakh by way of Stamp duty and Registration fee to the Government.

During the Exit Conference, Government replied that the district officers were instructed to issue notices to the licencees for non-registration of lease documents and a compliance report with respect to the above would be submitted to audit. However, no such response was received.

➤ **Non-enforcement of licence condition in respect of possessional limit of FL2 and FL3 licences**

As per Rule 17 (a) Under Chapter IV of The Tamil Nadu Liquor (Licence & Permit) Rules, 1981, Licences issued under FL2 and FL3 are for the

possession of liquor by non-proprietary clubs and star hotels respectively. The department prescribes the quantity of liquor required to be possessed at a time (in units) as one of the conditions of the licences under checklist documents for FL2 and FL3 Licences. The quantity stipulated is indicated in Form F.A.1.2 and F.A.1.3 and this limit shall not be exceeded at any point of time.

Audit noticed in five⁷ district offices, that 13 licencees had exceeded the possessional limits⁸ sanctioned. However, the licences were renewed for the subsequent years.

On this being pointed out, the Department replied (May 2020) that Tamil Nadu Liquor (Licences and Permit) Rules 1981 does not prescribe any guidelines for possessional limits and these limits are fixed based on the purchase and sale figures collected from the District Offices. It was further stated that show cause notices would be issued in the cases specified by Audit.

The reply is not acceptable as the Department itself is prescribing the quantity of liquor required to be possessed at a time as a condition of the licences and Audit highlighted those instances where the licencees exceeded their possessional limit approved by the Excise Department. Government may take appropriate action on errant licencees having quantity of liquor in excess of the possessional limit approved by the Excise Department.

➤ **Incorrect Clearance of Draught Beer**

As per proviso to Rule 29 (7) of Tamil Nadu Brewery Rules, 1983, the manufacturers are permitted to supply Draught Beer⁹ to five star hotels which are holding FL3 licence issued under the Tamil Nadu Liquor (Licence and Permit) Rules 1981, on an indent issued by TASMAL.

Audit noticed in the Office of the Commissioner that the Department permitted the breweries to supply draught beer to four star and even to three star hotels, contrary to the above Rule provisions.

On this being pointed out, the Department replied (May 2020) that action would be taken to amend the Rule by sending proposals to the Government. However, the current permissions are in violation of the existing law and suitable action should be taken against the concerned for violation of the same. Until amendment is effected, Department may adhere to the extant rule provisions and permit supply of draught beer only to five star hotels.

The instances mentioned under Para 3.3.9.2 were found in the test check by Audit. These indicate poor level of compliance to the rules and regulations laid down for renewal and consequent loss of revenue. The Department may verify all such instances of renewal of licences to rectify the non-adherence to the rules and plug revenue leakages.

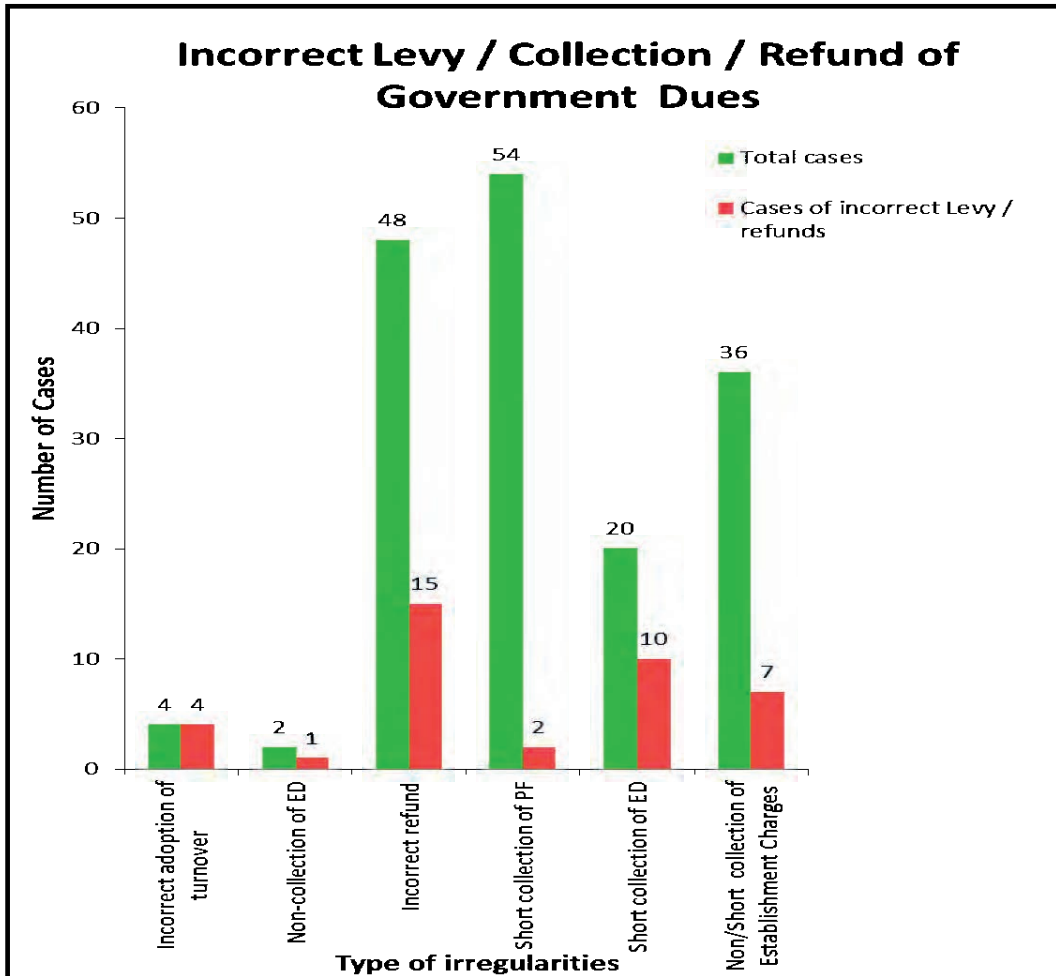
⁷ Chennai, Cuddalore, Dindigul, Thanjavur and Nagercoil.

⁸ Quantity of liquor required to be possessed at a time by the licencees.

⁹ Beer unpasteurised and filled in kegs or container for sale.

3.3.10 Levy and collection of duty and fees, etc.

The excise revenue consists of Excise duty, Privilege fee, Licence fee, Import fee, Brand registration, renewal fee etc. Audit identified non/short collection of duty and fees amounting to ₹ 440.72 crore in 39 out of 164 cases as represented in the graph and following paragraphs. (Paragraph Numbers 3.3.10.1 to 3.3.10.8).



3.3.10.1 Short payment of VAT due to incorrect adoption of turnover by TASMAC

In Tamil Nadu, the liquor manufacturers pay VAT at the first point of sale. TASMAC, as the sole wholesale vendor, pays VAT at the second point of sale. The rate of VAT at the first point of sale is 58 *per cent* and at the second point of sale, it is 220/250/260 *per cent* depending on the nature of the liquor. The Commissioner approves the price at which TASMAC buys liquor from the manufacturing units and also the price at which it sells liquor to the public.

As per the Explanation I to Schedule II of TNVAT Act, for the purpose of levy of tax at the second point of sale for alcoholic beverages, the turnover of the goods liable to tax at second point of sale shall be arrived at by deducting the turnover of such goods on which tax has been levied at the first point of sale.

During the scrutiny of VAT accounts for the period from 2014-15 to 2018-19, audit noticed that the manufacturers of liquor offered discounts, on the price approved by the Commissioner, to TASMAC. As VAT has to be paid on the sale price, these manufacturers computed their turnover after deducting the discount amount and paid VAT on the discounted turnover at the first point of sale. However, TASMAC while paying tax at second point of sale, computed its deductible turnover (i.e. turnover at the first point of sale that has to be deducted for VAT calculation at the second point of sale) based on the price list approved by the Commissioner, instead of the turnover on which VAT was actually paid by the manufacturers at the first point of sale. Due to this wrong procedure adopted by TASMAC, the deductible turnover computed by it was higher than the actual turnover on which tax was paid at the first point of sale. Consequently, there was short payment of VAT by TASMAC to the tune of ₹ 424.02 crore.

During the Exit Conference, it was replied that based on the audit observation notices were issued by CTD. Subsequently, the assessment orders were passed and the TASMAC paid ₹ 126.25 crore (March 2020).

Audit noticed from the assessment orders that while arriving at the differential tax payable, the Assessing Authority of the CTD had reduced the sale price of liquor (at the first point of sale) for calculation of VAT payable. Since the Commissioner had approved the sale price and the same was already collected from the customers, this price cannot be altered. The incorrect computation by CTD resulted in short collection of VAT to the tune of ₹ 297.77 crore.

3.3.10.2 Non-payment of differential Excise Duty on the closing stock of liquor

As per the proviso to Section 18 C of the Tamil Nadu Prohibition Act, 1937, where there was a difference of duty between two licence periods, such difference may be collected in respect of all stocks of liquor other than foreign liquor held by the licencees at the close of the former period.

During 2014-15 to 2018-19, Excise Duty rates were increased twice on 20 August 2014 and 13 October 2017. Details of closing stock as on 19 August 2014 for all 38 TASMAC district offices and 43 TASMAC depots were not made available to Audit. Further, details in respect of the closing stock as on 12 October 2017 were not furnished in respect of 26 TASMAC depots. During the scrutiny of records of 17 TASMAC depots and 38 TASMAC district offices wherein closing stock details were furnished, it was noticed that differential amount due to revised rates of excise duty was not paid by TASMAC on these closing stocks. The total differential duty payable worked out to ₹ 13.99 crore.

During Exit Conference, TASMAC replied that excise duty was leviable only at the manufacturing point and TASMAC as a wholesaler and retailer need not pay differential duty. It was further stated that MRP revision is done at the level of TASMAC and that incidence of Excise Duty is only while clearing the goods from the Bonded Warehouse of the bottling unit. The reply is not acceptable since as per the provisions of Section 18A (1) of the Tamil Nadu

Prohibition Act, 1937 read with Section 18(C)(a) excise duty is leviable on the quantity sold from licensed warehouse and hence TASMAC is liable to pay the differential excise duty on the closing stock. Moreover, TASMAC increased the MRP of the closing stocks solely based on the revision of excise duty and collected enhanced MRP from the consumers although the differential tax remained unpaid.

3.3.10.3 Incorrect Refund of Privilege Fee

According to Rule 17(a) (A) of TN Liquor (Licence and Permit) Rules, 1981, a licence fee and a privilege fee shall be collected for issue of FL2 and FL3 licences. FL2 licences are issued to clubs and FL3 licences to Star Hotels for possession of liquor. As per Rule 24 A, proportionate refund of licence fee and privilege fee may be granted to a licensee for the period during which the licensee has not transacted any business. The licensee should apply for refund by surrendering the licence granted to him.

Audit observed that the Department granted refund to 26 FL2 and 22 FL3 licencees stating that they did not transact any business during the period from 01 April 2017 to 31 August 2017 as they were closed based on the directions of the Honorable Apex Court¹⁰. The said refund was granted under Rule 24 A.

The Commissioner issued (27 April 2017) instructions to all the District Collectors that the Deputy Commissioners / Assistant Commissioners concerned were directed to ensure that the liquor stock supplied by the TASMAC and available with the licencees whose bar had been closed due to the Hon'ble Supreme Court orders, should be handed over to the concerned TASMAC godown under proper acknowledgement. However, 15 licencees did not hand over the closing stock as directed and therefore the stock was retained by the licencees. Since these licencees were in possession of stock, they were not eligible to claim refund during the period of closure. Hence, refunds amounting to ₹ 71.73 lakh granted to these 15 licencees were not in order.

On this being pointed out, the Department replied (May 2020) that the refund was provided based on Rule 24A of Tamil Nadu (Licence and Permit Rules, 1981) as the licencees did not transact any business during the period of refund applied and there was no incorrect refund. The reply is not tenable as Rule 24A permits refund to a licensee who has not transacted any business under the licence for refund of the licence fee along with the licence granted to him. In the cases pointed out in Audit, the licencees neither surrendered their licences nor the closing stock. As they continued to possess stock, they cannot be said to have not transacted the business. Hence, the refund granted is not in order.

¹⁰ In the case of The State of Tamil Nadu and Shri K. Balu & Another dated 15 December 2016 and 31 March 2017 (Civil Appeal Nos. 12164-12166 of 2016).

3.3.10.4 Short collection of privilege fee

According to Rule 17(a) (A) of TN Liquor (Licence and Permit) Rules, 1981, the privilege fee in respect of FL3 licencees are collected based on the star category of the hotels. The Indian Tourism Development Corporation (ITDC) periodically publishes the star category-wise list in respect of the hotels which got accreditation. Audit cross-verified the ITDC records of approved star category of hotels and identified that in Coimbatore and Tiruchirapalli District Offices, two five-star category hotels paid privilege fee applicable for four-star category hotels. This resulted in short payment of privilege fee of ₹ 9.57 Lakh.

The Department replied (May 2020) that the entire amount was since collected, at the instance of audit.

3.3.10.5 Non/Short collection of Excise Duty due to variation in proof strength

As per Section 18 A of the Tamil Nadu Prohibition Act 1937, Excise Duty is to be levied on all liquor and intoxicating drugs permitted to be imported, exported, transported, manufactured, issued from any manufactory or institution or sold in the State.

The Excise Duty (ED) on the clearance of liquor was to be paid at the rates prescribed under Section 18B by the Government, which are periodically revised. The ED was to be paid on the proof strength of the liquor (contents of alcohol) and the rates prescribed are as follows:

Table No. 3.4: Details of proof strength

Type of case	No. of bottles per case	Total content (1x2)	Proof litre (75 per cent alcohol content) based on which excise duty is levied 75% of (3)
1	2	3	4
1000 ml	9	9 Bulk litre	6.75 Proof Litre
750 ml	12	9 Bulk Litre	6.75 Proof Litre
375 ml	24	9 Bulk Litre	6.75 Proof Litre
180 ml	48	8.64 Bulk Litre	6.48 Proof Litre

Government amended the Act w.e.f. 19.08.2014, enabling levy of excise duty on 180 ml cases as applicable to 6.75 proof litre. However, audit noticed that the revised rates of duty were collected by the Department only from 20.08.2014 in respect of 10¹¹ operational field offices. This resulted in short collection of duty of ₹ 102.70 lakh. The Department replied that an amount of ₹ 95.89 lakh as pointed out in Audit was since collected and the remaining ₹ 6.81 lakh would be collected under intimation to audit.

¹¹ ESO, Golden Vats (P) Ltd, ESO Southern Agrifurane Ltd., ESO Shiva Distilleries Ltd., ESO SNJ Distilleries (P) Ltd., ESO KALS Distilleries (P) Ltd., ESO Enrica Enterprises (P) Ltd., ESO Midas Golden Distilleries (P) Ltd., ESO Mohan Breweries & Distilleries Ltd., ESO Accord Distillers & Brewers Pvt Ltd., and ESO KALS Beverages (P) Ltd.

3.3.10.6 Non-reconciliation of Bar Tender amount remittances

The Government (vide G O (Ms) No 20 dated 29 March 2013) inserted Rule 9A in Tamil Nadu Liquor Retail Vending (in Shops and Bars) Rules, 2003, stipulating that tender amount may be collected from the successful bidders and remit the same to the Government after retaining one *per cent* agency commission. The privilege of running bars was granted to private parties through tender. The auction is conducted by TASMAL by fixing an upset price¹² based on the quantum of sales of the attached TASMAL retail shops. TASMAL was permitted to decide the upset price and other terms and conditions of tender, from time to time, with prior approval of the Commissioner.

A comparative study of the amounts of one *per cent* bar agency commission retained by the TASMAL as per the Annual Report and the 99 *per cent* bar tender amount remitted to Government account, revealed short remittance of Bar Tender amount in respect of 2013-14 and the same was in excess in respect of all other years. As the district offices were not having any details of the collection and remittances of the bar tender amount, the reasons for the variation could not be verified.

On this being pointed out, the Department forwarded the reply of TASMAL (May 2020) wherein it was stated that wherever the bar contractors have not remitted the bar tender amount to Government, same was adjusted from their security deposit and remittances made to Government Account. An amount of ₹ 10.50 crores has to be adjusted against security deposit for 2013-14. These adjustment and payment will be done shortly after getting it audited by internal auditors.

Reply of the Department is not acceptable as the Department has no control over TASMAL and not monitoring the bar tender amount remittances made by the TASMAL. Even, after a lapse of 6 years the issue of remittance relating to the year 2013-14 still exists. This points to a lapse of internal control system for regular reconciliation of remittances. It is recommended to strengthen the system of reconciliation as non-reconciliation of amounts over long periods entails a risk of non-recovery of actual outstanding dues.

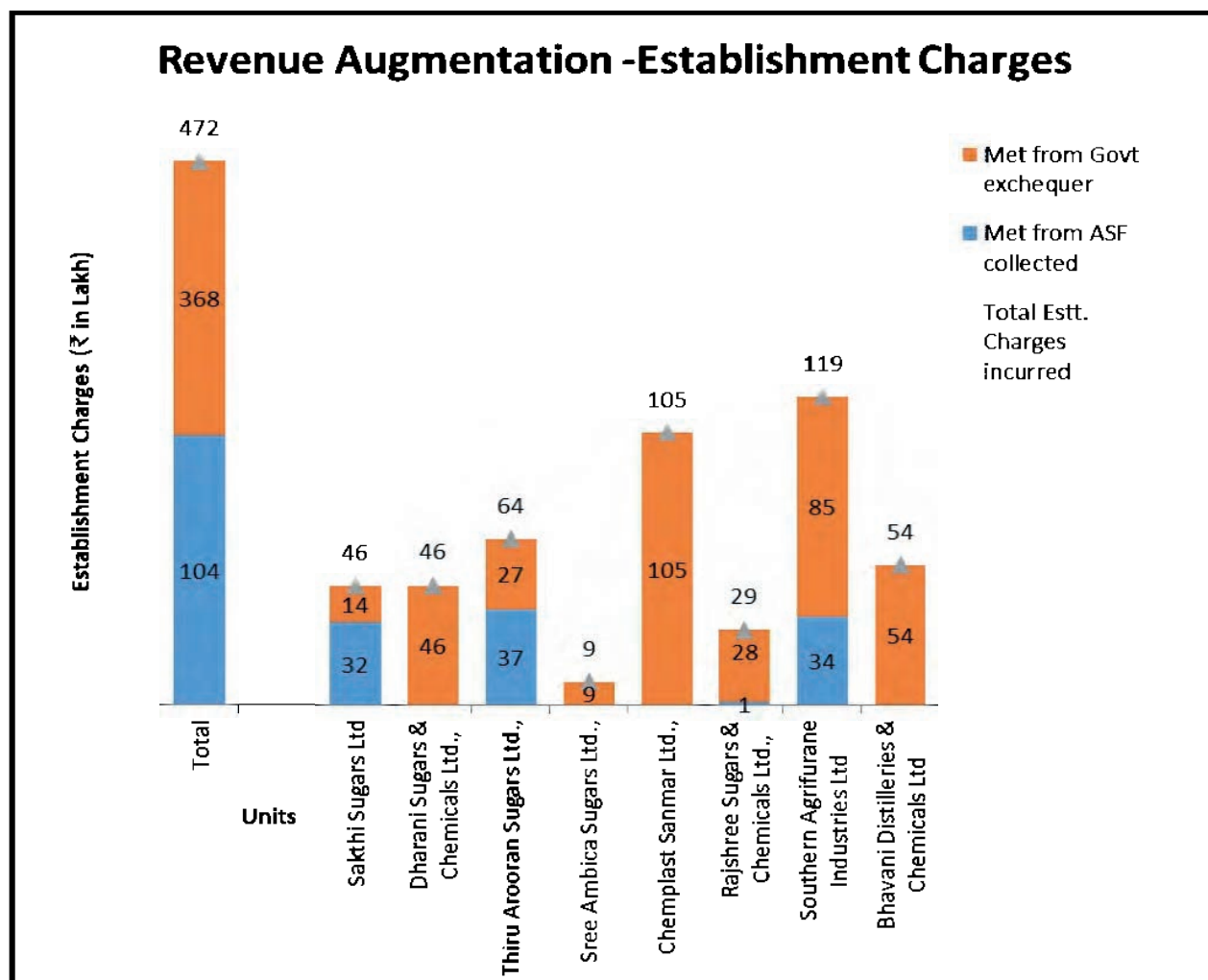
3.3.10.7 Short collection of Administrative Service Fee due to non-amending of provisions of statute

According to Rule 5A of the Tamil Nadu Distillery Rules, 1981, an Administrative Service Fee (ASF) of ₹ 1 shall be collected per bulk litre of IMFS produced in a distillery to meet the charges incurred by Government towards running an establishment within the premises of distillery.

It was noticed that in eight operational field offices, the ASF collected was lesser than actual establishment charges incurred by the Government due to

¹² Upset price is the minimum price fixed based on the sale of the TASMAL shops in which the bar is attached. The auction price of the bars should be more than the upset price fixed from time to time.

non-production of spirit or lesser production, even though Government posted supervisory staff. Due to the possibility of resumption of production at any point of time, the Government did not reduce the supervisory staff in these Distilleries. Since the Rule mandates collection based on production of spirit, collection of ASF could not meet the actual establishment charges incurred by the Government. While the actual expenses were at ₹ 4.72 crore, the ASF collected in these cases were only ₹ 1.04 crore resulting in excess expenditure of ₹ 3.68 crore having been incurred by the Government in the five years covered by Audit.



Therefore, it is recommended to amend the Rules in order to levy ASF or actual establishment charges, whichever is higher. On this being pointed out, the Department replied (May 2020) that necessary proposal would be sent to the Government after thorough study as suggested by audit for necessary Rule amendment to this effect.

3.3.10.8 Non-Collection of establishment charges

As per Rule 22 (3) of the Tamil Nadu Brewery Rules, 1983 and Rule 16 (3) of the Tamil Nadu Indian Made Foreign Spirits (Manufacture) Rules, 1981, every licensee shall pay the cost of the establishment including the allowances, leave salary and pension contribution to Government for every month in advance.

Audit analysis revealed non-collection of establishment charges / pension contribution in seven operational field offices, even as the licences were continued to be renewed. The details are as below:

- The ESO, Appollo Distilleries and Breweries (P) Ltd., and ESO, Mohan Breweries and Distilleries (IMFS) Ltd., did not collect establishment charges amounting to ₹ 41.89 lakh. On this being pointed out, the Department replied (May 2020) that ₹ 15.77 lakh was since collected in the case of ESO, Appollo Distilleries and Breweries (P) Ltd and demand notice was issued in the remaining case. Further report is awaited.
- The ESO, Mohan Breweries and Distilleries (Brewery Division), did not collect pension contribution for the months of September 2016 and October 2018 amounting to ₹ 27.72 lakh even after the issue of demand notices. Further, for the period from November 2018 to January 2019, demand notice was not issued. On this being pointed out, the Department replied (May 2020) that demand notice has since been issued. Further reply on recovery is awaited.
- As per G.O. Ms, No.177 dated 06 October 1999 of Personnel and Administrative Reforms (FR II) Department, the pension contribution for the employees shall be recovered at the rate of 10 per cent of the maximum of scale of pay plus the appropriate Dearness allowance thereon. Audit observed in three¹³ operational field offices that there was short payment of pension contribution due to incorrect calculation of pension contribution on the actual pay drawn instead of maximum of the time scale, which worked out to ₹ 10.55 lakh. On this being pointed out, the department replied (May 2020) that the entire amount of ₹ 10.55 lakh has since been collected.
- As per Fundamental Rules 116 of Tamil Nadu Government, leave salary contribution had to be levied at 11 *per cent* in respect of officials coming under the purview of Tamil Nadu Leave Rules, 1933. Audit observed in the office of ESO, Southern Agrifurane Ltd, that the leave salary contribution was short paid to the extent of ₹ 6.25 Lakh. On this being pointed out, the Department replied (May 2020) that the amount had since been collected.

The instances given above point to lack of compliance to provisions relating to levy, payment and collection of excise duty, fee, VAT, etc. The Department needs to strengthen its enforcement system to ensure that the dues to the Government are collected and rules complied with.

¹³ ESO, KALS Beverages (P) Ltd, ESO, KALS Distilleries (P) Ltd., and ESO, Shiva Distilleries Ltd.

3.3.11 Effectiveness of prevention of revenue leakages

The observations on leakage of revenue noticed during the audit is detailed in the following paragraphs:

3.3.11.1 Flouting of norms by TASMAL outlets

- TASMAL operates outlets for sale of liquor and also permits private bars to be run adjacent to these outlets. Both the Department and TASMAL prescribe norms for conduct of business at these outlets and bar. As per Rule 16 of the Tamil Nadu Liquor Retail Vending (in Shops and Bars) Rules, 2003, the retail vending shops should issue cash bills in Form-III. In the Policy Notes of the Department for the year 2019-20, it was stated that billing machines were issued to all the shops in 15 districts for this purpose.

Audit physically verified, by making purchases at two different outlets, that cash bills were not being issued., and amount in excess of MRP was being charged. Neither the Department nor the TASMAL had conducted any periodical inspection to detect such issues. On this being pointed out, the Department forwarded the reply of TASMAL (May 2020) stating that the billing machines were installed in all the shops and they are being monitored and the bills were issued to those customers on their insistence. It was also stated that the TASMAL is in the process of implementing a system by which sale would be effected only after the generation of bills.

- Audit also found that TASMAL outlets were charging more than the prescribed MRP.

During Exit Conference, TASMAL replied that instructions were issued prescribing penalty/transfer for those shop personnel indulging in MRP violation and this is being reviewed every month. Further, it was stated that 7,117 violation cases were booked during 2019-20. It is not known if any penalty has been levied in such violations and any licences cancelled in case of continued violations. It is recommended to strengthen the enforcement system to minimise such violations and time bound action must be taken on the errant licencees and employees and hefty penalty be levied on continuing offenders.

3.3.11.2 Poor implementation of Enforcement Activities

According to Section 32 of the TN Prohibition Act, 1937, any officer from the Police or Land Revenue Department can act as a Prohibition Officer. Section 32A contemplates establishment of check posts to prevent or check the import, export, transport or transit of liquor without obtaining a licence or permit. The Prohibition Enforcement Wing (PEW) of the Department, headed by the Additional Director General of Police, operates in the State to check and eradicate illicit distillation, transportation, possession and sale of illicit liquor and prevent smuggling of sale of spurious liquor and illicit IMFS from other states. The PEW operates in 45 checkpoints. The following observations are made on the functioning of the Wing.

- Audit noticed from the records relating to seizures that during the period from 2014-15 to 2018-19 most of the seizures were done only on being tipped off by informers. Further, in eight cases, the liquor manufactured in Puducherry and Karnataka States were seized in interior parts of the State. Had the border checkpoints been effective, these cases ideally ought to have been caught at the border itself.
- Audit physically visited two checkpoints at Kottakuppam and Killianur in Villupuram district and found that these checkpoints were functioning under thatched roof.
- Cameras and communication devices were not available in these check posts.
- There were no speed breakers constructed in front of these check posts to enable officials to stop and check vehicles.

When this was pointed out, the Department replied that (October 2019) a detailed report would be obtained from Prohibition and Enforcement Wing and submitted to Audit.

3.3.11.3 Lack of transparency in placement of indent on manufacturers by TASMAL

The Honourable Madras High Court, in the case of M/s Golden Vats Private Limited Vs. TASMAL (W.P.Nos.1937 & 1938 of 2014) in respect of non-issuing of indents held that, in the interest of all the manufacturers of IMFL, Stakeholders and Consumers and to avoid further controversies, the TASMAL is directed to frame necessary guidelines as to the issuance of orders and indents to the manufacturers to maintain equality. The manufacturers are

clearing their manufactured IMFS to various TASMAL depots based on the indents issued by TASMAL on day-to-day basis.

During Audit, it was noticed that in respect of three IMFS units, there was variation in the production as detailed below:

Table 3.5 – Details of production capacity and actual production
(No. in Cases)

Sl No	Name of the Unit	Production Capacity as per Hand book	Actual Production 2014-15 (Percentage to total Capacity)	Actual Production 2015-16 (Percentage to total Capacity)	Actual Production 2016-17 (Percentage to total Capacity)	Actual Production 2017-18 (Percentage to total Capacity)	Actual Production 2018-19 (Percentage to total Capacity)
1	M/s. Midas Golden Distilleries	16250000	24225694 (149.08)	11191315 (68.87)	11192800 (68.88)	16569455 (101.97)	1910000 (11.75)
2	M/s. Shiva distilleries	11100000	4688705 (42.24)	4333970 (39.04)	4955180 (44.64)	1809850 (16.30)	1863125 (16.78)
3	M/s. Enrica Enterprises	11880000	7359502 (61.95)	5852547 (49.26)	3192685 (26.87)	6422250 (54.06)	8464710 (71.25)

A further scrutiny of the records revealed that the variation was due to the non/short receipt of indents from TASMAL based on which the IMFS units could supply the liquor to various depots.

On this being pointed out, the Department replied (May 2020) that TASMAL places the indents by taking all scientific measures which includes weighted average sale per day and the indents placed by the retail vending shop depending upon the demand for a particular brand. The reply of the Department is not tenable as test check of indents received from the TASMAL retail vending shops, it was noticed that the brands of these units were requested by the bar owners but the same was not supplied by TASMAL citing ‘non availability’ of stocks. However, in reply to audit query, M/s. Enrica Enterprises Pvt Ltd., stated that the production was stopped due to non-receipt of indents and have appealed to the Government in this regard. Therefore, the reply of TASMAL that indents are placed based on demand is not acceptable. This shows a lack of internal control in having a transparent indenting process.

It is therefore reiterated that the Department should ensure that TASMAL enforces a transparent procurement policy to ensure equality and equitable placement of indents on all licence holders.

3.3.11.4 Effectiveness of E-Governance activities in ensuring transparency

E-Governance plays an important role in ensuring transparency and make services user friendly. Audit appreciates the e-governance initiatives taken so far by the Department in bringing transparency and efficiency to the departmental operations. During 2018-19 (Policy note), the following processes had been made online with web-enabled applications:

- Issue of import permit for import of foreign liquor by FL2, FL3 etc.

- Issue of export permit for export of beer to other states and countries.
- Renewal of licence for FL2, FL3 etc.

Audit noticed that the details of purchase and sales, possession limits and details of refunds issued for all licencees were updated in the Online Licence Renewal System (OLRS) till the year 2018-19. However, from the year 2019-20, these details were not updated. Since this information is essential for monitoring the licencees, updation of OLRs portal is essential.

On this being pointed out, the Department replied (May 2020) that the online renewal portal shall be redesigned to include the updation of purchase and sales figure, particularly in units to ascertain vital facts by the Department. Further action taken in this regard may be communicated to Audit.

3.3.11.5 Functioning of Internal Audit

Internal Audit is an integral part of an effective internal control as it ensures proper and effective functioning of a system and also for detection and prevention of control weaknesses.

A comment regarding non-preparation of annual audit plan and poor outcome of the internal audit conducted was made in the Para Number 3.7.15.2 in the Audit Report of the Comptroller and Auditor General of India for the year ending 31 March 2012. During the present audit, it was noticed that no internal audit was conducted during the period from 2014-15 to 2018-19. The Department replied that (November 2019) there is an internal audit wing in the Department with a sanctioned strength of one Superintendent and two assistants, however one Superintendent was in position. Therefore, internal audit from the year 2012-13 was not taken up due to non-filling up of posts. The Department replied (May 2020) that the internal audit would be conducted after the lifting of the lockdown.

3.3.12 Other issues

3.3.12.1 Short production of Ethanol

India is the third¹⁴ largest emitter of carbon di-oxide in the world. Blending of ethanol with petrol plays an important role in reducing vehicular pollution. Further, blending of ethanol also saves substantial foreign exchange that is being spent on import of crude oil.

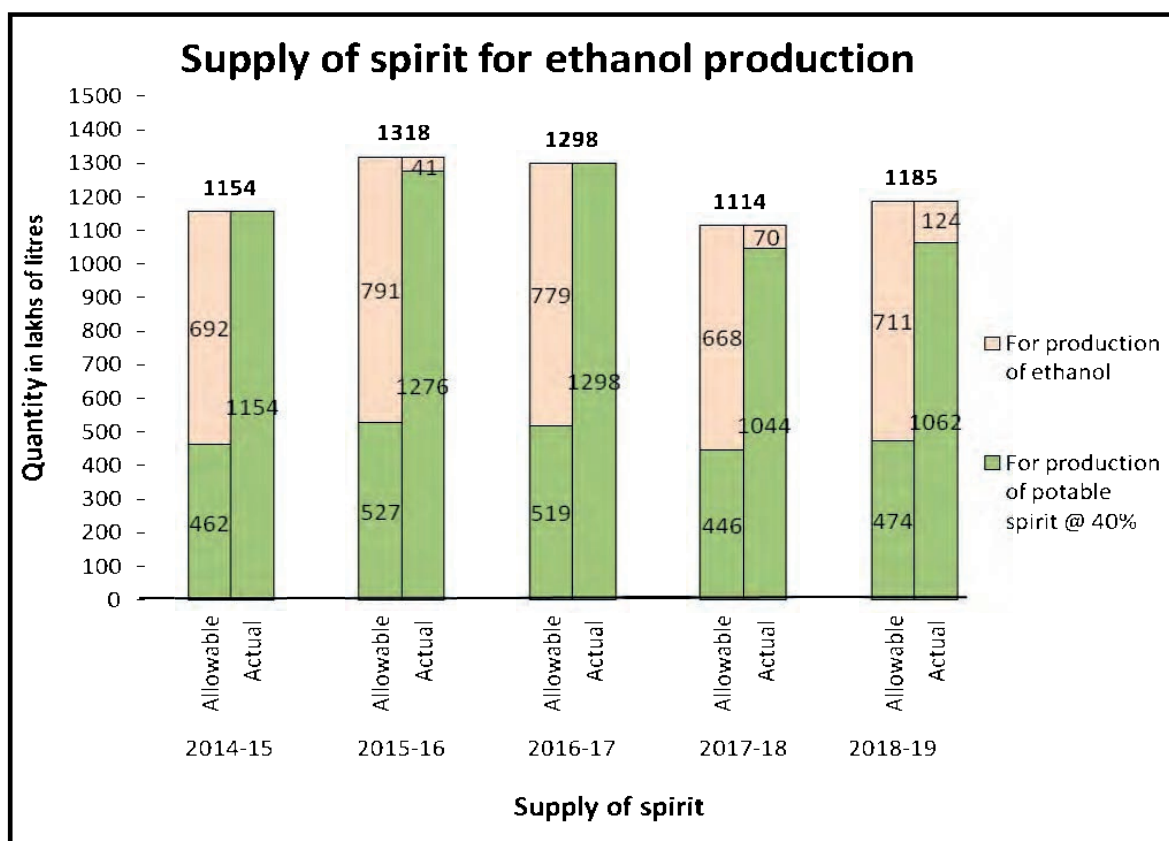
To reduce air pollution due to emission from vehicles and to save foreign exchange by reducing crude oil import, the GOI resolved to blend ethanol with petrol for the use of oil companies from 1 January 2003. Initially GOI recommended the blending 5 *per cent* ethanol with petrol, which was increased to 10 *per cent* from 2013 to improve the environment and ecosystem and reduce oil import bill. A comment was made on the 'Non-production of ethanol for blending with petrol' vide Para Number 3.7.11 in the Audit Report of the Comptroller and Auditor General of India for the year ending 31 March 2012. Government has not furnished explanatory notes so

¹⁴ After China and the USA

far. The Government of Tamil Nadu in G.O. Ms No 12, Home, Prohibition and Excise Department dated 26 March 2012 permitted 8 distilleries to produce ethanol.

Audit ascertained from the details obtained from the three Oil companies viz., BPCL, HPCL and IOCL, that the total ethanol requirement from Tamil Nadu during 2014-15 to 2018-19 was 11,387 lakh litres. Further scrutiny revealed that as against this ethanol requirement only 210 lakh litres (two *per cent*) were supplied for blending with petrol.

The Government of Tamil Nadu issued an order¹⁵ in 1993, stipulating that the overall consumption of alcohol for potable purposes should not exceed 40 *per cent* of the alcohol production of the State. The quarterly statements of production of ethanol maintained in the Department revealed that the total production of spirit from 2014-15 to 2018-19 stood at 6,069 lakh litres. Out of this total production, 5,834 lakh litres (96 *per cent*) were supplied for potable alcohol as against the stipulated 40 *per cent*.



Thus, the Department failed to monitor distribution of spirit as per Government's order issued in 1993 and allowed substantial portion of production of alcohol for supply for potable purpose (96 *per cent*) as against the permissible limit of 40 *per cent*.

On this being pointed out, the Department replied (May 2020) that the production of alcohol was hit by severe draught and distilleries were permitted to import molasses to run the units. Besides, willing distilleries were allotted

¹⁵ G.O.Ms No 176- Prohibition and Excise (VIII), Department dated 05 August 1993.

molasses for supply of ethanol to Oil Manufacturing Companies. During the period of audit, the supply for potable liquor was less than 40 per cent of the total production capacity of the distilleries in the State.

According to the Tamil Nadu Government Order cited above, the supply for potable liquor shall be restricted to 40 per cent of actual production and not on total production capacity. Therefore, the Department may take action to ensure manufacture of Ethanol.

3.3.12.2 Rehabilitation and Awareness activities

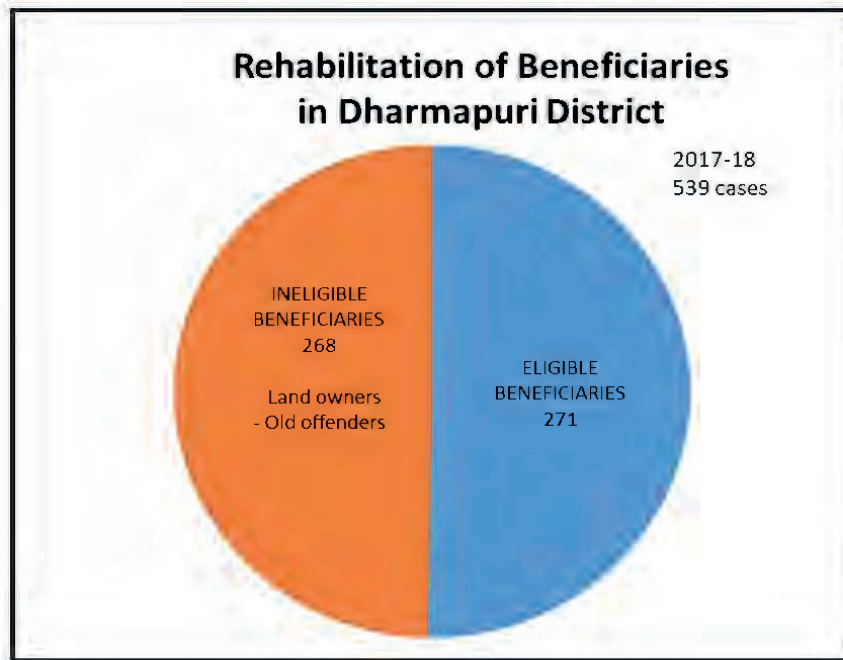
One of the objectives of the policy note (2018-19) of the Prohibition and Excise Department was to take concerted efforts to provide financial assistance to convicted prohibition offenders who are not having any livelihood, and to conduct awareness campaign on the evils of liquor etc.

Audit noticed deficiencies in rehabilitation of affected persons and running of awareness campaigns as follows:

Distribution of Rehabilitation Fund to ineligible beneficiaries

The Government constituted Rehabilitation Fund in 2003-04 to financially assist, through loan, the erstwhile prohibition offenders who were convicted for illicit transportation/sale of imported foreign liquor, illicit sale of spurious/un-excised Indian made foreign liquor, illicit transportation/sale of rectified spirit and distillation, transportation and sale of illicit arrack. The maximum amount of assistance was fixed as ₹ 30,000/-.

During a scrutiny of the grant of rehabilitation fund disbursed for the period from 2014-15 to 2018-19, Audit noticed that a total of ₹ 25 crore was allocated for rehabilitation in 32 districts and a sum of ₹ 23.67 crore was incurred. Out of this, the amount spent by Dharmapuri district was ₹ 7.93 crore, being 34 *per cent* of the total assistance. Further scrutiny of ₹ 1.62 crore disbursed during 2017-18 to 539 beneficiaries in Dharmapuri district revealed that (i) 268 persons had their own land and (ii) out of these 268 persons, 88 were convicted before 20 years. In the absence of specific and transparent guidelines issued for identifying beneficiaries, there is a risk that the amounts may have been distributed to ineligible persons, depriving the beneficiaries of the intended relief.



On this being pointed out, the Department replied (May 2020) that the grant was being given to erstwhile prohibition offenders who were economically weak and there were no specific criteria regarding land holding and time limit for conviction under prohibition offences for the beneficiaries. It was also stated that the land owned were rocky and unfit for agricultural purposes. However, the suggestions of audit would be considered and suitable criteria would be fixed in future.

Awareness Campaign Fund

The campaign was aimed to create awareness on the evils of consuming liquor through activities such as rallies, camps, seminars, street plays, advertisement at public places etc., These activities are organised by the district administration with the help of students, Self Help Groups and Non-Governmental Organisations taking into consideration the socio-economic and geographic needs of every district.

Verification of records revealed that out of ₹ 13 crore totally granted during the five years from 2014-15 to 2018-19, the Department spent ₹ 10.70 crore. Moreover, as per the statistical details published by Government of India in July 2019, Tamil Nadu stood fourth in the number of accidents (2015 to 2017) due to drunken driving.

The Department replied (May 2020) that, during 2015-16 and 2016-17, the funds could not be utilised due to unprecedented rainfall, Vartha cyclone and due to assembly elections. Though explanation was sought from the District office, Madurai for non-utilisation of funds for the year 2018-19, further reply was still awaited.

3.3.13 Conclusion

The Performance Audit revealed that conditions governing the issue of licences were not enforced and renewal of licences was being done without proper verification. The Department failed to exercise appropriate control over TASMAL relating to collection of VAT and issue of indents. There were instances of flouting of norms by shops leading to leakage of revenue. The Department did not exercise effective control over the activities of TASMAL in placement of indents to the IMFS units. There was short collection of fees, non-monitoring of limits of possession and shortcomings in enforcement activities besides ineffective implementation of rehabilitation schemes.

3.3.14 Recommendations

The instances mentioned in the report were found in the test check by Audit in selected offices. The observations are of a nature that may reflect similar deficiencies in other offices, not test checked by Audit. The Department may, therefore, carry out checks in these offices to ensure that such irregularities and deficiencies, if any, stand rectified and recoveries are made at the earliest. It is recommended that the Government may

- Strengthen the system of issue/ renewal of licences, by ensuring that the same takes place only on fulfilling the requisite stipulations and suspend or cancel them in case conditions governing their grant are not followed. Action may be taken against Departmental employees for lapses in issue/renewal of licences. Penalty may be levied on offenders/violators.
- Strengthen internal control mechanism to monitor payment of VAT, excise duties, brand renewal fees, and collection of other dues. May explore the option of amending for collecting ASF on actual expenditure incurred on establishment and issue of licences for draught beer.
- Plug revenue leakages by enforcing control and reconciliation. Vigilance at the border checkpoints may be increased to avoid transportation of illicit liquor.
- Ensure an equitable policy of placement of indents by TASMAL to ensure transparency.
- Ensure sufficient supply of ethanol for blending with petrol to reduce air pollution. The requirements as mandated by the government, from time to time, may also be factored in.
- Formulate suitable guidelines and fix appropriate criteria for distributing the amount from the rehabilitation fund to the affected persons and their families.

CHAPTER IV
STAMP DUTY AND REGISTRATION FEE

PART-A
CHAPTER IV
STAMP DUTY AND REGISTRATION FEE

4.1 Tax administration

The Registration Department administers the Indian Stamp Act, 1899 and the Registration Act, 1908 and the Rules made thereunder. The administration of the Department is vested with the Inspector General of Registration (IGR). There are 50 registration districts comprising 576 registration offices including three camp offices in the State. The levy and collection of stamp duty and registration fees are done by the registering authorities namely District Registrars (DRs) / Sub-Registrars (SRs). The monitoring and control at the Government level is done by the Secretary, Commercial Taxes and Registration Department.

4.2 Internal audit

Internal audit is a vital component of internal controls to enable an organisation to assure itself that the prescribed systems are functioning reasonably well. The Department has a system of internal audit to ensure *cent per cent* audit of all the instruments registered. There are 45 audit units, each headed by a District Registrar. The periodicity of audit of all offices is on monthly basis. The Registration Manual (Part II) provides guidance for establishment and working of internal audit in the department. The Department has also prepared and published a Hand Book of Internal Audit for instant and simplified guidance.

The details of internal audits due and conducted are placed in **Table No. 4.1**.

Table No. 4.1: Details of Internal Audit

Year	Number of audits due	Number of audits completed	Balance	Percentage of col.3 to 2
1	2	3	4	5
Upto 2014-15	4,053	3,306	747	--
2015-16	1,617	980	637	61
2016-17	1,321	979	342	74
2017-18	2,426	1,916	510	79
2018-19	3,817	3,038	779	80
Total	13,234	10,219	3,015	

(Source: Reply of the Department)

The above table indicates an increasing trend from 2016-17 in the number of offices in respect of which internal audit was in arrears. The Department attributed the reasons for arrears in audit to vacancy of Audit Registrars and stated that a special team has been formed to clear the backlog.

The Department may consider strengthening internal audit so that audit may be conducted for all the units due for audit.

As at the end of 31 March 2019, 34,215 paragraphs involving money value of ₹ 133.43 crore were outstanding as detailed in Table No. 4.2.

Table No. 4.2: Details of Internal Audit Objections

(₹ in crore)

Year	Opening Balance		Observations raised		Observations settled		Observations pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Upto 2016-17	21,249	88.13	27,147	67.09	25,798	58.91	22,598	96.31
2017-18	22,598	96.31	24,078	60.16	16,354	39.49	30,322	116.98
2018-19	30,322	116.98	17,106	41.66	13,213	25.21	34,215	133.43

(Source: Reply of the Department)

It is suggested that action may be taken for speedy clearance of old outstanding objections.

4.3 Results of audit

Test check of records of 18 departmental offices out of 599 auditable units conducted during the period from April 2018 to March 2019 revealed short levy of stamp duty and registration fee due to misclassification and other irregularities amounting to ₹ 69.25 crore in 137 cases, which broadly fall under the following categories:

Table No. 4.3: Results of Audit

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1	Misclassification of instruments	32	3.26
2	Undervaluation of instruments	30	1.56
3	Excess/Incorrect allocation of Transfer Duty Surcharge	10	1.07
4	Others	65	63.36
	Total	137	69.25

During the course of the year 2018-19, the department accepted and recovered underassessments and other deficiencies amounting to ₹ 79.88 lakh in 29 cases pointed out in earlier years.

4.4 Audit Observations

Audit scrutiny of records at 18 out of 599 auditable offices (three *per cent*) revealed deficiencies amounting to ₹ 2.01 crore are discussed in the following paragraphs.

4.4.1 Misclassification of conveyance deeds as cancellation deeds

According to Section 2(10) of the Indian Stamp Act, 1899 (IS Act), transfer of property includes a transfer on sale and every instrument by which property whether movable or immovable, is transferred *inter vivos* and which is not otherwise specifically provided for by Schedule I to the IS Act. As per Article 23 of Schedule I to the IS Act, in the case of transfer of immovable property, stamp duty is leviable at the rate of seven *per cent* including transfer duty surcharge on the market value of the property. In addition, under the Indian Registration Act, 1908, registration fee is leviable at the rate of one *per cent* for the period up to 8 June 2017 and four *per cent* thereafter, on the market value of the property on which the stamp duty is levied. As per Article 17 of the Schedule I to the IS Act, for instrument of cancellation, if attested and not otherwise provided for, a stamp duty of ₹ 50 is to be levied.

It was judicially¹ held that there can be no such thing as cancellation of a conveyance under which right of property has already been passed. Property can be retransferred only by re-conveyance. Further, it was judicially² held by the Madras High Court that cancellation of a sale deed by a deed of cancellation can be effected only when a condition that title will pass on payment of consideration, was included in the original sale deed.

Audit noticed during scrutiny of records in six³ out of 18 Registering Offices (between November 2018 and March 2019) that transfer of properties, effected through 24 sale deeds (registered between November 2011 and March 2017), was cancelled by 'Deeds of Cancellation' (registered between May 2016 and September 2017) on the ground that consideration was not received and possession was not handed over, etc., and stamp duty and registration fee of ₹ 0.07 lakh was collected by the Department. As the original sale deeds indicated receipt of consideration and handing over possession of properties, subsequent instruments retransferring the properties to the original vendors were to be classified as conveyance deeds and stamp duty and registration fee of ₹ 70.77 lakh was required to be levied on the market value of the property of ₹ 8.25 crore. Thus, misclassification of re-conveyance deeds as cancellation deeds resulted in short levy of stamp duty and registration fee of ₹ 70.70 lakh.

On being pointed out by Audit (between November 2018 and March 2019), the Registering Officer, Peelamedu, replied that as per the instructions of the IGR any deed can be cancelled under Article 17 of the IS Act and that in the absence of any recitals on the act of conveyance, a document should be treated

¹ cf Emperor Vs Rameshardoss 32 All 171 SIC 697.

² W.A.Nos.592 & 938 of 2009, in Latif Estate Line India Ltd. Vs. Registration Department.

³ DR, Chennai (South), SR, Avadi, SR, Kundrathur, SR, Neelankarai, SR, Peelamedu and SR, Periamet.

as mere cancellation only. The reply is not acceptable as original sale deeds indicated receipt of consideration and handing over possession of properties. The subsequent instruments retransferring the properties to the original owners are to be classified as Conveyance deeds falling under Article 23 of the IS Act. Replies from the other offices are awaited.

Recommendation: Department may ensure that executive instructions do not override spirit of the Act and result in evasion of stamp duty.

4.4.2 Misclassification of instruments

4.4.2.1 Short collection of stamp duty and registration fee in respect of Release deeds

As per the provisions of Clause C of Article 55 of Schedule I to the IS Act, in respect of an instrument of release, whereby a co-owner of a property renounces his right / claim in favour of another co-owner, who is not a family member, on any specified property over which they have common right, stamp duty is leviable at the rate of seven *per cent* of the market value of the immovable property which is the subject matter of release. In addition, registration fee is leviable at one *per cent* on the market value of the immovable property. As per Article 55A of Schedule I, instruments of release involving transfer of properties in favour of family⁴ members attract stamp duty of one per cent on the value of properties transferred, subject to a maximum of ₹ 25,000. Besides, registration fee at the rate of one *per cent* on the value of properties transferred was also leviable, subject to a maximum of ₹ 4,000.

Audit noticed during scrutiny of records in four⁵ out of 18 Registering Offices (between November 2018 and March 2019) that out of properties valued at ₹ 5.10 crore, share of properties valued at ₹ 3.37 crore was transferred through eight instruments of release deed executed and registered between June 2016 and December 2017. These included transfer of share in properties valued at ₹ 1.60 crore to family members and ₹ 1.77 crore to persons other than 'family members', viz., daughter-in-law, aunt, nephew, niece. However, instead of collecting stamp duty and registration fee at the rate of eight *per cent* on the value of the properties transferred to persons other than family members, the Registering Officers collected stamp duty at the concessional rate prescribed for family members. Thus, against stamp duty and registration fee of ₹ 15.53 lakh, stamp duty and registration fee of only ₹ 2.17 lakh was collected by the department. This resulted in short collection of stamp duty and registration fee of ₹ 13.36 lakh.

On being pointed out by Audit (between November 2018 and March 2019), the Registering Officers of Chennai (North) and Peelamedu stated that the IGR had clarified in January 2014 that Article 55A of the IS Act contemplated

⁴ As per explanation under Article 55A of Schedule I read with explanation under Article 58 of Schedule I, "family" means father, mother, husband, wife, son, daughter, grandchild, brother, sister, and also includes adoptive father and mother, adopted son and daughter in the case of any one whose personal law permits adoption.

⁵ DR, Chennai (North), SR, Neelankarai, SR, Peelamedu and SR, Singanallur.

release in respect of coparcenary properties, properties jointly inherited, properties devolved by succession, and since in these cases there existed coparcenary right over the property among the releasors and the releasees, the documents were classified as family release. The reply was not tenable because the relinquishment of share in property in these cases had not taken place among the family members as per the provisions of the IS Act. Further, any executive instructions/clarifications cannot be a substitute for the statutory provisions contained in the relevant Act. Reply from other offices awaited.

4.4.2.2 Short collection of stamp duty and registration fee in respect of Partition deeds

As per Article 45 (b) of Schedule I to the IS Act, instrument of partition among persons other than family members is chargeable to stamp duty at the rate of four *per cent* on the amount of the value of the separated share or shares of the property. In addition, registration fee is leviable at one *per cent* on the value of the property subject to partition. As per Article 45 (a) of Schedule I to the IS Act, instruments of partition involving transfer of properties in favour of family members attracts stamp duty of one *per cent* on the value of properties partitioned, subject to a maximum of ₹ 25,000. Besides, registration fee at the rate of one *per cent* on the value of properties transferred was also leviable, subject to a maximum of ₹ 4,000. ‘Family’ as defined under the IS Act includes father, mother, husband, wife, son, daughter, grandchild, brother, sister and also adoptive father and mother, adopted son and daughter in the case of any one whose personal law permits adoption.

During test check (February and March 2019) of records in five⁶ out of 18 Registering Offices, Audit noticed that through seven instruments of partition registered between April 2016 and March 2018, immovable properties valued at ₹ 10.67 crore were partitioned. Scrutiny of the instruments revealed that the share of properties worth ₹ 88.49 lakh allotted to non-family members was also classified by the Registering Officers as partition among family members and stamp duty and registration fee were levied at concessional rates. Thus, against ₹ 12.27 lakh, the Registering Officers collected stamp duty and registration fee of ₹ 8.55 lakh resulting in short collection of stamp duty and registration fee of ₹ 3.72 lakh.

On being pointed out by Audit (February and March 2019), SR, Singanallur replied (March 2019) that the partition was effected between coparceners and stamp duty and registration fee was collected based on the directions given in the circulars issued by the IGR. The reply is not acceptable as the transfer of share in property through the partition deeds was made to persons other than family members and the concessional rate of stamp duty as per the IS Act was applicable only in respect of transfer to family members. Further, the Madurai Bench of Honourable Madras High Court⁷ held in February 2014 that the definition of the term “family” given in the Explanation under Article 58 was

⁶ SR, Gandhipuram, SR, Kundrathur, SR, Neelankarai, SR, Singanallur and SR, T.Nagar.

⁷ Madurai Bench of Honourable Madras High Court in W.P.No.58 of 2012 in the case of T. Muthu Balu Vs Inspector General of Registration dated 24 February 2014.

exhaustive and the benefit of Explanation under Article 58 would not be applicable to persons other than those mentioned therein. Reply from other offices is awaited.

Recommendation: Department may ensure that when the provisions of Act and Rules are clear and unambiguous, executive instructions are not issued.

4.4.3 Excess allocation of Transfer Duty Surcharge

As per Section 175 of the Tamil Nadu Panchayats Act, 1994 and Section 94 of the Tamil Nadu Urban Local Bodies Act, 1998, a duty, in the form of surcharge, shall be levied and collected on the instruments of sale, exchange, gift, mortgage with possession and lease in perpetuity and subsequently allocated to the local bodies concerned.

Audit observed (between November 2018 and March 2019) from the periodical quarterly returns of transfer duty surcharge (TDS) and registers in six⁸ out of 18 Registering Offices that ₹ 109.41 lakh was allocated to local bodies towards TDS as against ₹ 32.75 lakh actually collected. This resulted in excess allocation of ₹ 76.66 lakh out of the revenue due to the Government. The excess allocation was due to arithmetical error, incorrect computation of value of properties and allocation of TDS in respect of ineligible documents.

On being pointed out by Audit (between November 2018 and March 2019), Department replied that the excess allocation would be adjusted during the subsequent allocation.

Recommendation: Department while allocating the transfer duty surcharge, may avoid duplication, arithmetical inaccuracy and incorrect allocation. Further, the Department may introduce a software module so that there will be proper allocation of transfer duty surcharge.

4.4.4 Incorrect remission of Transfer Duty Surcharge

The Government implemented a Samadhan Scheme in December 2017⁹ with a view to realising the revenue blocked in pending cases under Sections 47A and 19B of the Indian Stamp Act, 1899, granting remission of one-third of the difference between stamp duty already paid and stamp duty chargeable on the value of properties as proposed by the Registering Officers based on the market value guidelines in respect of land and Schedule of Rates of Public Works Department in respect of buildings. As per Section 175 of the Tamil Nadu Panchayats Act, 1994 and Section 94 of the Tamil Nadu Urban Local Bodies Act, 1998, a duty, in the form of surcharge, shall be levied and collected on the instruments of sale, exchange, gift, mortgage with possession and lease in perpetuity and subsequently allocated to the local bodies.

⁸ DR, Chennai (South), SR, Neelankarai, SR, Peelamedu, SR, Periamet, SR, Singanallur and SR, T.Nagar.

⁹ G.O.Ms.No.189, Commercial Taxes and Registration (J1) Department dated 29 December 2017.

Presently, the rate of the TDS is two *per cent* on the value on which stamp duty is levied and collected.

During the audit of six¹⁰ out of 18 offices (between November 2018 and March 2019), it was noticed that executants of 21 instruments opted for the Samadhan Scheme and were granted one-third of the differential stamp duty as remission as per the Scheme. However, while granting remission to the stamp duty payable, the Registering Officer granted remission of TDS also on all these instruments and collected two-third of TDS of ₹ 39.30 lakh instead of the full amount of ₹ 58.95 lakh. As the Government ordered remission of stamp duty only, one-third remission granted on TDS was not in order. This incorrect remission, resulted in a short collection of ₹ 19.65 lakh.

On being pointed out by Audit (between November 2018 and March 2019), the Registering Officer of Peelamedu, citing an IGR's order dated 25 August 1980, replied that no separate order was required for remission of transfer duty surcharge. The reply is not acceptable since the Government did not alter the market value on which stamp duty was payable but only remitted one-third of the duty payable. Since TDS is collectable on the market value on which stamp duty is payable, the remission of one-third of TDS was not in order. Moreover, levy of TDS is governed by separate Acts and therefore a separate notification is necessary for granting remission of the same. It is pertinent that in the neighboring Union Territory of Puducherry, the Government had issued a separate notification for remission of TDS for women purchasers. Hence, the remission allowed by the Registering officers is not in order. Reply from other Registering Offices is awaited.

Recommendation: Department while making internal circulars, may ensure that the circular instructions are not overriding the provisions of the Act and Rules. Department may obtain legal opinion in cases of ambiguities and make use of procedure followed in other States in a similar situation.

4.4.5 Misclassification of conveyance-cum-cancellation of lease deed as cancellation of lease deed

As per Section 5 of IS Act, any instrument comprising or relating to several distinct matters shall be chargeable with the aggregate amount of the duties with which separate instruments, each comprising or relating to one of such matters, would be chargeable under this Act. According to Article 1(o) of the Table of Fees prepared under Section 78 of Indian Registration Act, 1908, cancellation of any instrument attracts a registration fee of a maximum of ₹ 50. As per Article 23 of Schedule I to the IS Act, in the case of transfer of immovable property, stamp duty is leviable at the rate of seven *per cent* including TDS on the market value of the property. In addition, under the Indian Registration Act, 1908, registration fee is leviable at the rate of one *per cent* for the period upto 8 June 2017 and four *per cent* thereafter, on the market value of the property on which the stamp duty is levied.

¹⁰ SR, Ashok Nagar, SR, Gandhipuram, SR, Kundrathur, SR, Neelankarai, SR, Peelamedu and SR, Royapuram.

During the test check of 18 lease instruments in the office of the SR, Periya Naicken Palayam (November 2018), it was noticed that through two instruments, lease of vacant lands given previously, was cancelled in December 2016 and January 2018. Based on the field inspections conducted by the Assistant Executive Engineer, the Registering Officer collected a registration fee of ₹ 2.09 lakh including the registration fee on building value of ₹ 2.08 crore and registered the instruments. Even though only land, without any building was originally leased out, the lessor got back the land along with a new built-up portion. Therefore, the transaction should be treated as a conveyance-cum-cancellation of lease deed and stamped as per Section 5 of the IS Act. However, the Registering Officer did not levy and collect stamp duty and registration fee treating the transfer of improvements as conveyance. Thus, against ₹ 18.60 lakh leviable, the Registering Officer collected ₹ 2.09 lakh, resulting in a short collection of ₹ 16.51 lakh.

When this was brought to the notice of the department (November 2018), the Registering Officer stated that the registration fee on the building was collected as per the instructions of the IGR (October 2014). The reply is not acceptable since there is conveyance of building in the transaction which has been overlooked.

Recommendation: Department may ensure that clarification through internal circulars is issued after exhaustive analysis and does not result in leakage of revenue.

The issues mentioned in Paragraph Nos. 4.4.1 to 4.4.5 were referred to the Government in October 2019 and reminded in January, March and June 2020. Reply is awaited (October 2020).

PART-B
ECONOMIC SECTOR

CHAPTER V

GENERAL

PART-B

CHAPTER V

GENERAL

5.1 Introduction

Tamil Nadu is one of the largest States of India, with a population of 7.21 crore and a geographical area of 1,30,058 sq km. For the purpose of Administration, there are 37 Departments, headed by Principal Secretaries, who are assisted by Commissioners/Directors and subordinate officers under them.

Government functioning is broadly classified as General Services, Social Services and Economic Services. This part of Report covers the functioning of 10 Departments of Economic Sector listed in **Table No. 5.1**.

Of the 10 Departments with a total expenditure of ₹ 32,285.07 crore covered here, a major portion of the expenditure was incurred by Highways and Minor Ports (28.34 *per cent*), followed by Agriculture (28.22 *per cent*), Public Works (16.57 *per cent*) and Industries (11.75 *per cent*) Departments during 2018-19.

5.2 Trend of expenditure

A comparative position of expenditure incurred by the Departments during the year 2018-19 along with preceding four years is given in **Table No. 5.1**.

Table No. 5.1: Trend of expenditure for five years

(₹ in crore)						
Sl. No.	Name of the Department	2014-15	2015-16	2016-17	2017-18	2018-19
1	Agriculture	5,247.25	6,199.67	6,505.30	7,541.33	9,111.07
2	Animal Husbandry, Dairying and Fisheries	1,705.37	1,795.75	1,597.31	1,978.84	2,084.22
3	Environment and Forests	633.96	473.47	443.53	539.66	551.96
4	Handlooms, Handicrafts, Textiles and Khadi	1,271.56	1,234.97	1,257.55	1,223.53	1,345.59
5	Highways and Minor Ports	6,254.65	6,719.63	7,030.85	8,630.59	9,149.28
6	Industries	703.58	1,253.08	1,709.50	1,702.56	3,794.33
7	Information Technology	81.72	79.29	70.22	67.87	123.50
8	Micro, Small and Medium Enterprises	219.06	284.04	299.78	377.19	632.93
9	Public Works	4,113.54	3,628.23	4,038.92	4,460.77	5,350.81
10	Tourism	125.33	126.17	128.76	144.43	141.38
Total		20,356.02	21,794.30	23,081.72	26,666.77	32,285.07

(Source: Appropriation Accounts for the years 2014-15 to 2018-19).

Reasons for increase in expenditure are stated below:

Agriculture Department: The increase in expenditure was mainly due to payment to Electricity Board for supply of free electricity to the farmers, implementation of crop husbandry schemes viz., micro irrigation, National Horticulture Mission, etc. (₹ 1,592 crore).

Industries Department: The increase in expenditure was due to enhanced allocation of share capital assistance to Co-operative and Public Sector Sugar Mills (₹ 1,562 crore).

Animal Husbandry, Dairying and Fisheries Department: The increase in expenditure was due to free distribution of Aseel Bird scheme and expenditure for Veterinary Hospitals and Dispensaries besides establishment expenditure (₹ 42 crore).

5.2.1 Some major schemes implemented by the Departments of the Economic Sector during 2018-19

- (i) Highways Department incurred an expenditure of ₹ 4,043 crore towards implementation of Comprehensive Road Infrastructure Development Programme covering State Highways, Major District Roads and Other District Roads.
- (ii) Industries Department incurred an expenditure of ₹ 1,562 crore towards share capital assistance to Co-operative and Public Sector Sugar Mills.
- (iii) Agriculture Department incurred an expenditure of ₹ 1,012 crore towards implementation of Micro irrigation scheme.
- (iv) Handlooms and Textiles Department undertook free distribution of handloom cloth at an expenditure of ₹ 348 crore to the people living below poverty line.

5.3 About this Part of Report

This part of Report of the Comptroller and Auditor General of India (CAG) relates to matters arising from the Audit of 10 Government Departments and 48 Autonomous Bodies under the Economic Sector. Compliance Audit covers examination of the transactions relating to expenditure of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with. Performance Audit examines whether the objectives of the programme/activity/Department are achieved economically, efficiently and effectively.

5.4 Authority for audit

The authority for audit by the CAG is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. CAG conducts audit of expenditure of the Departments of Government of Tamil Nadu under Section

13¹ of the CAG's (DPC) Act. CAG is the sole Auditor in respect of Autonomous Bodies which are audited under Sections 19(3)² and 20(1)³ of the CAG's (DPC) Act. In addition, CAG also conducts audit of other Autonomous Bodies, under Section 14⁴ of CAG's (DPC) Act, which are substantially funded by the Government. Principles and methodologies for various audits are prescribed in the Auditing Standards and the Regulations on Audit and Accounts, 2007 issued by the CAG.

5.5 Planning and conduct of audit

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit. Auditing Standards require that the materiality level for reporting should be commensurate with the nature, volume and magnitude of transactions. The audit observations are expected to enable the Executive to take corrective action, as also to frame policies and directives that will lead to improved financial management, thus, contributing to better governance.

Audit process starts with the assessment of risks faced by various Departments of Government based on expenditure incurred, criticality/complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit observations are also considered in this exercise. The frequency and extent of audit are decided based on this risk assessment.

Inspection Reports (IRs) containing audit observations are issued to the Heads of the Department/field officers after completion of audit. The Departments are requested to furnish replies to the audit observations within one month of receipt of the IRs. Whenever replies are received, audit observations are either settled or further action for compliance is advised. Important audit observations arising out of these IRs are processed for inclusion in the Audit Reports, which are submitted to the Governor of the State under Article 151 of the Constitution of India for laying on the table of the house of the State Legislature.

The total audit universe under the 10 departments of the Economic Sector was 900 and out of which 117 audit units were planned and audited during 2018-19. Of the 48 Autonomous Bodies under the control of these departments, seven Autonomous Bodies qualified for conduct of audit under Sections 14 and 19(3) of the CAG's (DPC) Act, 1971.

¹ Audit of (i) all transactions from the Consolidated Fund of the State, (ii) all transactions relating to the Contingency Fund and Public Accounts and (iii) all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts.

² Audit of the accounts of Corporations (not being Companies), established by or under law made by the State Legislature, at the request of the Governor.

³ Audit of accounts of any body or authority on the request of the Governor, on such terms and conditions as may be agreed upon between the CAG and the Government.

⁴ Audit of (i) all receipts and expenditure of a body or authority substantially financed by grants or loans from the Consolidated Fund of the State and (ii) all receipts and expenditure of any body or authority where the grants or loans to such body or authority from the Consolidated Fund of the State in a financial year is not less than ₹ one crore.

5.6 Response to audit

5.6.1 Draft Paragraphs and Compliance Audit

Five Draft Paragraphs and Compliance Audit on Functioning of Tamil Nadu Agricultural University were forwarded, demi-officially, to the Principal Secretaries of the Departments concerned between November 2019 and June 2020, with the request to send their responses. Government replies to five Draft Paragraphs and the Compliance Audit were received. The replies have been incorporated in the Audit Report, wherever applicable.

5.6.2 Follow-up action 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)/ Committee on Public Undertakings (COPU) directed that the Departments concerned should furnish remedial Action Taken Notes (ATNs) on the recommendations of PAC/COPU, relating to the Paragraphs contained in the Audit Reports, within six months. We reviewed the outstanding ATNs on the Paragraphs included in the Reports of the Comptroller and Auditor General of India relating to the Departments of Economic Sector, Government of Tamil Nadu and found that 668 and 15 recommendations pertaining to the Audit Paragraphs discussed by PAC and COPU respectively were pending as on 31 March 2019. Of the 668 PAC recommendations, 19 recommendations and out of 15 COPU recommendations two recommendations were settled as of December 2019; 230 recommendations were under consideration of PAC; and Department did not furnish ATNs for 419 recommendations. The delay in submission of ATNs ranged between six months and five years.

5.6.3 Outstanding replies to Inspection Reports

On behalf of the Comptroller and Auditor General of India (CAG), the AG conducts periodical inspections of the Government Departments to test check transactions and verify maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with issue of 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 replies. Serious financial irregularities are brought to the notice of the Heads of the Departments and the Government.

Inspection Reports issued upto 31 March 2019 were reviewed and found that 3,540 Paragraphs relating to 1,071 IRs remained outstanding at the end of September 2019 (**Annexure 3**). Of the same 194 IRs containing 359 Paragraphs were pending for more than five years and 749 IRs containing 2,326 Paragraphs were pending between one and five years.

This large pendency of IRs, due to lack of corrective action or non-receipt of replies, was indicative of the fact that Heads of the offices and Heads of the Departments did not take appropriate action to rectify the defects, omissions and irregularities pointed out in the IRs.

CHAPTER VI

COMPLIANCE AUDIT

PART-B
CHAPTER VI
COMPLIANCE AUDIT

AGRICULTURE DEPARTMENT

6.1 Functioning of Tamil Nadu Agricultural University, Coimbatore

6.1.1 Introduction

The Tamil Nadu Agricultural University (TNAU), Coimbatore was established in June 1971 under the TNAU Act, 1971 with the objectives of imparting education in agriculture and allied sciences and execution/extension of research work. The vision of the University is to become an important driver in nation's economy and world's top University in agriculture education and technology.

The University imparts agricultural education through 14 constituent (Government) and 26 affiliated colleges with 12 Undergraduate (UG), 33 Postgraduate (PG), 27 Doctoral degree courses in agriculture, horticulture, forestry and sericulture. Moreover, the 14 constituent colleges and 39 Research Stations undertake research activities across the State on area specific and crop specific issues. The University also undertakes various extension education activities viz., training, demonstrations, farm advisory services to needy farmers, on farm trials, etc., with the help of 14 Krishi Vigyan Kendras (KVKs) under their jurisdiction.

The Governor of the State is the Chancellor of TNAU and the Minister-in-charge of Agriculture is the Pro-Chancellor. The Vice Chancellor is overall in charge of the University, the Registrar is in charge of administration and the Comptroller is in charge of finance and accounts. The education activities are supervised by Deans and Research activities by Directors who are assisted by Professors/Associate Professors/Assistant Professors. The Extension Education is supervised by Director and assisted by KVK Programme Coordinators.

6.1.2 Audit Objectives

This audit was conducted to assess whether the University:

- Ensured effective utilisation of the State Government grants;
- Imparted quality agricultural education to the student community;
- Promoted Research activities on new emerging areas and whether research projects were completed on time; and
- Effectively performed extension activities and dissemination of technologies to farmers.

6.1.3 Scope and Methodology

This audit was conducted between June 2019 and February 2020 covering the period from 2016-17 to 2018-19 to assess the audit objectives with reference to the TNAU Act, 12th Five Year Plan document, Vision document, guidelines of Indian Council of Agricultural Research (ICAR) and National Institution Ranking Framework (NIRF).

Audit test checked the records in the Government Secretariat, Directorate of Agriculture, Office of Registrar, TNAU and four¹ out of 14 constituent colleges, six² out of 39 Research stations and four³ out of 14 KVKs which were selected based on judgmental sampling method. A survey was conducted through questionnaire among 590 out of 693 final year UG and PG students of four constituent colleges and five affiliated colleges under the control of TNAU to assess the extent of infrastructure facilities and career opportunities. The feedback of 50 farmers in each of the four selected KVKs was also obtained to assess the effectiveness of the activities of KVKs in imparting latest developments in agriculture to farmers. Audit scope, coverage and methodology were discussed in the Entry Conference with Agriculture Production Commissioner and Principal Secretary to Government (APC) held on 11 June 2019. Audit findings were also discussed with APC in Exit Conference on 30 June 2020 and their views were duly considered and incorporated in the report appropriately.

6.1.4 Good Practices adopted by TNAU

Audit observed that the following good practices have been adopted by the University to benefit the farming community.

- Development and release of mobile apps viz., Paddy Expert, Banana Expert, Ragi Expert, Coconut Expert, etc., to provide free of cost information about the symptoms, management and control of diseases affecting the crops, climatic conditions, etc., to farmers.
- Dedicated YouTube channel - TNAU TV for dissemination of agro technology videos for the benefit of farmers and students.
- India's first Insect Museum inaugurated in TNAU (March 2018) to showcase rich diversity of insects from all over the country. It provides complete insight about the magic world of insects; serves as reference point on insect identification for researchers and benefits farmers on crop pests, their damage symptoms and natural enemies.

Audit scrutiny of records relating to core activities of the University revealed the following:

¹ (i) Agriculture College and Research Institute, Coimbatore, (ii) Horticulture College and Research Institute, Periyakulam, (iii) Forest College and Research Institute, Mettupalayam, (iv) Agricultural Engineering College and Research Institute, Kumulur.

² Aduthurai, Athiyanthal, Cuddalore, Ooty, Tindivanam and Vamban.

³ Arupukkotai, Needamangalam, Thirupathisaram and Tindivanam.

6.1.5 Financial Management

As per TNAU Act, 1971, Tamil Nadu Government releases a non-lapsable lump sum grant equal to the net expenditure of the University every year. The net expenditure should be arrived at after adjusting the receipts of the University.

Table No. 6.1: Receipts, Expenditure and excess Grants

Source of Funds	2016-17				2017-18			2018-19		
	OB	Receipt	Exp	CB	Receipt	Exp	CB	Receipt	Exp	CB
State Grant Plan and Non Plan	31.80	405.92	434.86	42.89	465.12	442.68	108.78	431.63	563.27	26.51
University Receipts**		40.03			43.45			49.37		
Other Agencies*	87.13	101.09	123.29	64.93	109.37	117.15	57.15	110.73	100.47	67.41
Total	118.93	547.04	558.15	107.82	617.94	559.83	165.93	591.73	663.74	93.92

(Source: Details furnished by TNAU) (OB – Opening Balance; Exp – Expenditure; CB – Closing Balance)

*GOI funding; ICAR funding; Private and foreign agencies funding for research projects.

**University receipts such as tuition fees, admission fees, etc., need to be adjusted against State grant.

The Public Accounts Committee (PAC) had examined the Report of the Comptroller and Auditor General of India (CAG) for the year 1984-85 and had pointed that the University did not take into account the unspent balance of previous year while calculating budget estimates for ensuing year which resulted in excess drawl of grant. It recommended that the State Government should release only such amount as was likely to be spent by the University during the year. The issue relating to release of excess grant amounting to ₹ 2.73 crore continued upto 2005-06 and hence non-adherence to the recommendation of PAC was again pointed by the CAG in Audit Report⁴ of 2007.

The State Government did not take into consideration the unspent balances of previous year before release of funds in the subsequent years during 2016-17 to 2018-19 also. The State Government continued to release grants without considering the unspent balances of ₹ 42.89 crore, ₹ 108.78 crore and ₹ 26.51 crore during the financial year 2016-17, 2017-18 and 2018-19 respectively, resulting in excess release of grants to the University. This also led to blocking of Government funds outside the Government account.

APC in the Exit Conference agreed to take up the matter with the University officials and rectify the issue at the earliest.

6.1.5.1 Accounting System

As per Section 12 of TNAU Act, 1971, University shall prepare Annual Accounts and Balance Sheet every year. Finance Commission recommended (September 2003) maintenance of accounts in double entry system and the University decided to implement the system from April 2004. A comment on non-preparation of balance sheet and non-maintenance of accounts in double

⁴ Paragraph No. 3.5.9.1 of CAG's Audit Report (Civil) for the year ended 31 March 2007.

entry system was pointed out by the CAG in Audit Report⁵. Despite this, TNAU failed to maintain accounts in double entry system for the last 15 years and continued with preparation of Receipts and Payments accounts under single entry system.

Government of Tamil Nadu (GoTN) accepted (June 2020) the audit observation and stated that a Memorandum of Understanding (MOU) with M/s. ITI Limited, Lucknow has been entered (November 2017) for providing a software for a complete accounting system. It was informed that the accounts in double entry system would be prepared from 2020-21 onwards. The fact, however, remains that it has been delayed for more than two years, beyond the agreed time schedule for completion of the development of software as per MOU of 120 days.

6.1.6 Education

6.1.6.1 Admission

According to NIRF guidelines of ranking, the total sanctioned strength and the actual number of students enrolled in the institution for UG and PG programmes are important criteria to assess the performance of an institution.

Admission to Undergraduate Courses

TNAU admitted the students for 12 UG courses in 14 constituent colleges through counselling process. The number of applications received, sanctioned strength and the number of students admitted through counselling are as follows:

Table No. 6.2: Admission to Undergraduate Courses

SL No	Year	Number of applications received	Admission through counselling			Admission through NRI			Admission through industrial sponsored		
			Sanctioned strength	Students admitted	Vacancies after final counselling	Sanctioned strength	Students admitted	Vacancies after final counselling	Sanctioned strength	Students admitted	Vacancies after final counselling
1	2016-17	36,316	1,220	1,133	87 (07)	200	99	101 (51)	200	114	86 (43)
2	2017-18	48,996	1,233	1,155	78 (06)	200	107	93 (47)	200	125	75 (38)
3	2018-19	32,361	1,287	1,133	154 (12)	200	88	112 (56)	200	112	88 (44)

(Source: Details furnished by TNAU); (Figures in bracket indicate percentage of vacancy)

It may be seen from the above that the sanctioned strength of admissions through counselling, was increased from 1,220 in 2016-17 to 1,287 in 2018-19 based on the number of applications received and infrastructure created. However, Audit observed that the University was unable to fill the quota of the original sanctioned strength as detailed below:

- Though the sanctioned strength for admission through counselling increased every year, vacancy position increased from 06 to 12 *per cent* during 2017-18 to 2018-19 in the constituent colleges.
- The vacancies in the Non-Resident Indian (NRI) category ranged between 47 and 56 *per cent* during 2016-17 to 2018-19 indicating that the institution was not a preferred choice of NRIs.

⁵ Paragraph No. 3.5.9.6 of CAG's Audit Report (Civil) for the year ended 31 March 2007.

- The admission under industrial quota was applicable to students nominated by industries registered with Agri Business Consortium based on Memorandum of Understanding with TNAU. These registered industries also agreed to support significant research programmes of vital interest to agriculture and allied industries undertaken by TNAU. It is an important linkage to ensure sharing of knowledge and research between University and agricultural industries. However, audit observed that vacancies in industrial quota ranged between 38 and 44 *per cent* during 2016-17 to 2018-19 respectively.

GoTN replied (June 2020) that sliding system⁶ of admission was introduced by TNAU from 2018 to give preference to merit wherein candidates opt for choice of college and course till the completion of counselling. As the candidates opt out of the allotted college or course after the counselling, the vacancies remained. It was also stated that the allotment of seats under NRI and Industrial quota has been reduced from 200 to 140 from 2019-20. It was informed that efforts would be made to improve the admission process by obtaining feedback from other Universities.

It is recommended that TNAU fix the final date for opting out of sliding system before the end of counselling dates so that the vacancies could be filled up by other eligible candidates.

6.1.6.2 Results

Undergraduate Programme

As per TNAU Vision 2030, career guidance, workshops etc., are to be organised by the Director of Students welfare and greater emphasis is to be given to higher education. The number of students successfully completing graduation and those qualifying Junior Research Fellowship (JRF) are essential parameters for ranking the institution.

It was seen that out of 3,616 students admitted during 2013-14 to 2015-16, only 2,858 students (79 *per cent*) continued the course till the final year. 21 *per cent* of the students left the course after admission. The pass percentage of candidates in the UG programme reduced from 94 in 2016-17 to 79 in 2018-19 as detailed below:

⁶ Sliding system is followed after each counselling based on vacancy. Re-allotment of preferred degree course or college will be done based on the choice and willingness of the candidates, subject to merit and communal reservation policy.

Table No. 6.3: Pass percentage of Undergraduate students

Period of passing the candidates	Sanctioned strength for admission 2013-14 to 2015-16	No. of students admitted during 2013-14 to 2015-16	No. of final year students (percentage to admitted)	No. of passed students (percentage to number of students admitted)	No. of students who wrote ICAR entrance examination	No. of students who got JRF (Percentage to students appeared for ICAR examination)	No. of students got enrolled in PG courses (Percentage to students appeared for ICAR examination)
2016-17	1,322	901	895 (99)	848 (94)	566	16 (3)	34 (6)
2017-18	1,481	1,358	847 (62)	810 (60)	654	33 (5)	50 (8)
2018-19	1,721	1,357	1,116 (82)	1,075 (79)	830	32 (4)	46 (6)
Total	4,524	3,616	2,858 (79)	2,733	2,050	81	130

(Source: Details furnished by TNAU)

The number of students who qualified for JRF was only in the range of three to five *per cent* and the number of students admitted through ICAR quota was in the range of six to eight *per cent* of the candidates who attended the qualifying examination.

GoTN replied (June 2020) that special coaching drive for ICAR examination was conducted during 2019-20 and 60 students cleared the examination.

It is recommended that the University analyse the reasons for higher percentage of dropouts and take appropriate corrective action. As the University rankings are affected by the number of students qualifying for ICAR's JRF, the University may focus on improving the percentage of students qualifying for JRF.

6.1.6.3 Revaluation

As per Para No.12.7 of Under-Graduate Rules and Regulations 2015 (semester system) of TNAU, a student can apply for re-valuation/re-totaling to the Controller of Examinations on payment of a fee of ₹ 600 per subject.

A mention was made in the CAG's Audit Report for the year 2007 (Para No.3.5.6.3) about change in marks scored after re-valuation in 1,612 out of 1,713 (94 *per cent*) answer papers for the academic years 2005-06 and 2006-07. It was recommended to revamp the valuation system of the University.

The position of revaluation during 2016-17 to 2018-19 is detailed below:

Table No. 6.4: Revaluation of marks in Undergraduate examination

Year	Total number of UG examination papers evaluated	Total number of papers with fail marks	Numbers of papers registered for re-valuation	Number of papers passed after re-valuation	Percentage
2016-17	1,55,070	12,491	4,033	1,654	41
2017-18	1,79,226	17,378	5,928	2,578	43
2018-19	2,03,531	30,780	6,308	2,649	42
Total			16,269 (27)	6,881	42

As seen from the above, 42 *per cent* of the examination papers registered for re-valuation were declared as passed after completion of re-valuation. This indicated that either the valuation in the first instance was not done with due care or the re-valuation was done in a very liberal manner. The valuation system of the University had not been revamped despite being pointed out in

earlier Audit Report. This raises doubt on the credibility of the evaluation system.

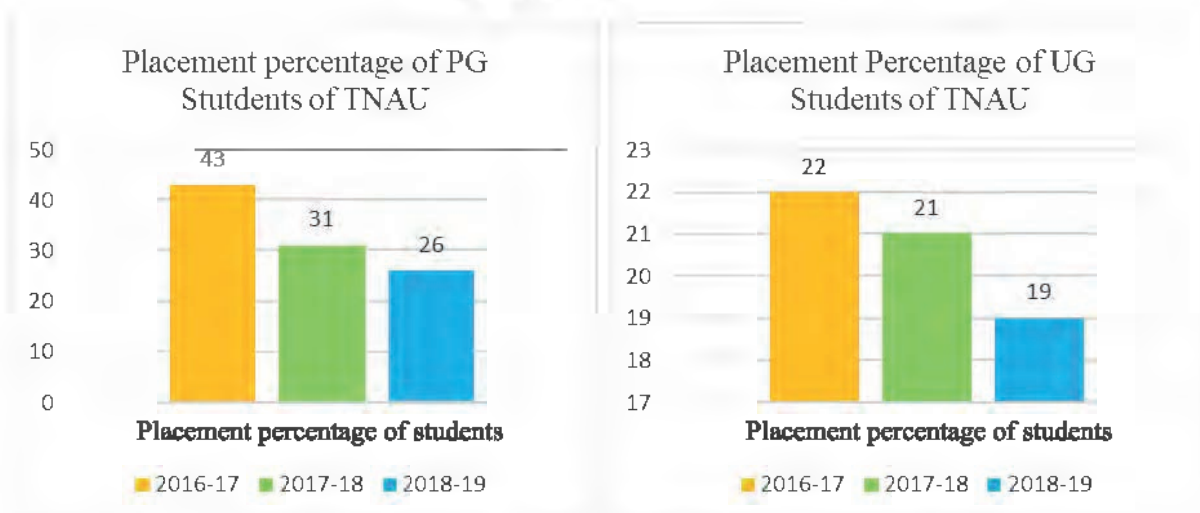
GoTN accepted the audit observation (June 2020) and stated that the first evaluation and revaluation would be strictly on the basis of standardised answer keys.

6.1.6.4 Placements

Employment after completion of Graduation and Post-graduation is a significant criterion for students while selection of college and it also reflects the quality of education, perception of industries while choosing the college for campus selection. TNAU Vision 2030 document also emphasised that the University would provide wholesome education not only to impart knowledge but also to make the graduates employable.

Audit observed that, as against the placement of 551 UG/PG students during 2010-11, the placement was 390 out of 1,343 students registered for placement during 2016-17 and further reduced to 334 out of 1,594 students during 2018-19.

The number of students placed for employment reduced from 22 to 19 *per cent* in respect of UG and 43 to 26 *per cent* in PG courses during the period 2016-17 to 2018-19 as illustrated in the chart:



It was seen that 52 to 60 *per cent* of the UG students were neither placed for employment nor admitted to PG courses. PG students who were not placed or did not pursue higher education increased from 26 to 53 *per cent* during 2016-17 to 2018-19 as detailed in Annexure 4.

Thus, it could be seen that the placement percentage was on the decreasing trend for both UG and PG students resulting in non-achievement of objective of TNAU Vision 2030 to improve the employment opportunities. The decreasing trends in placements is also affecting the reputation of TNAU and also NIRF ranking.

GoTN accepted the contention of audit (June 2020) and stated that efforts were being made to approach many organisations for placement of students.

6.1.6.5 *Infrastructure and Faculty for imparting quality education*

The National Academy of Agricultural Sciences in collaboration with ICAR organised Agricultural Science Congress on “Transforming Agricultural Education for Reshaping India’s Future” in 2013 and identified the gaps viz., (i) poor quality of education due to obsolete and inadequate equipment and laboratory facilities (ii) Depleting number and quality of faculty members (iii) lack of adequate skill and lack of evaluation etc.

Scrutiny of records revealed that there was shortage of Laboratory equipment, faculty, etc., as discussed in the subsequent paragraphs:

Shortage of Laboratory equipment

Fifth Deans’ Committee Report (February 2017) prescribed the minimum requirement of laboratory equipment for each course to impart quality education. It was observed that three out of four test checked colleges had shortage of laboratory equipment in the range of 14 to 97 *per cent* except in the Irrigation and Drainage laboratory (**Annexure 5**).

The post-harvest management, vegetables processing and preservation laboratory in the Periyakulam Horticulture College; forest product and tree improvement and wildlife science laboratory in the Mettupalayam Forestry College had shortage of 82 to 97 *per cent* of equipment which led to inadequate practical exposure to the students.

GoTN stated (June 2020) that the laboratory equipment was procured in 2019-20 in one college and procurement was in progress in other colleges. The fact however remains that inadequate laboratory equipment led to declining quality of education to students during 2016-17 to 2018-19.

Shortage of faculty

The vacancies in the cadre of Professors, Associate Professors and Assistant Professors in the 14 constituent colleges ranged between 15 and 22 *per cent* of the sanctioned strength during 2016-17 to 2018-19. The vacancy position of test checked constituent colleges were as detailed below:

- 32 faculty posts for the three new colleges commenced during 2014-15 were sanctioned after two years (April 2017) and these posts were yet to be filled up (December 2019). These colleges functioned by deputing faculty from other constituent colleges which overburdened limited faculty available in those colleges.
- 27 teaching staff were deputed to affiliated colleges to oversee the administrative and management activities of those colleges during 2016-17 to 2018-19.
- There were no teaching staff for Plant Protection, Post-harvest and Natural Resource Management subjects as against the minimum requirement of six, four and eight respectively in Horticulture and Research Institute (HC&RI), Periyakulam.

Thus, vacancies in sanctioned posts of faculty, delay in filling up of sanctioned posts, diversion of faculty for administrative functions and non-availability subject matter specialists hindered imparting quality education to students.

GoTN accepted the audit observation (June 2020) and stated that proposal has been submitted to Government to fill all the vacancies early.

Faculty student ratio

Faculty student ratio with emphasis on permanent faculty is one of the criteria for assessment of university ranking. Fifth Deans' Committee Report (February 2017) emphasised that non-availability of teaching faculty adversely affects the quality of education, research and extension activities which are intended to benefit rural population dependent on agriculture, besides creating a negative perception about the University.

Deans' Committee Report (February 2017) prescribed standards for establishing each category of college and minimum teaching staff strength required for each Division/Department of the college. As against the minimum staff requirement of 283 for the existing number of students (Annual Report - 2017-18) in the four test checked colleges, the sanctioned strength of faculty was 106 (37 *per cent*). Audit also observed that there were vacancies in the sanctioned strength and the actual available strength of faculty was 82 (29 *per cent* of requirement).

GoTN accepted the audit observation (June 2020) and stated that proposal has been submitted to Government for creation of additional entry level teaching staff.

6.1.6.6 Accreditation

The accreditation Board of ICAR provides assurance and improves academic quality in agriculture and allied sciences through the accreditation process. The Board accorded independent accreditation to State Agricultural University, Agricultural colleges including constituent and affiliated colleges and to academic programmes *viz.*, UG, PG and Ph.D Degree programmes based on the recommendations of Dean's Committees and Broad Subject Matter Area (BSMA) Committee. Government of India (GOI) also made accreditation as mandatory requirement for all State Agricultural Universities by 2016-17 and linked it for release of grants for education quality assurance. TNAU is entitled to admit students under All India Quota through ICAR in the constituent colleges only after the receipt of accreditation to the University.

The details of accreditation of the University, colleges and courses under TNAU are as detailed below:

- The accreditation for the University pertaining to two academic years, *viz.*, 2016-17 and 2017-18 was received in April 2017 and for a five year period from 2018-19 to 2022-23, in October 2018.

- Three out of 11 constituent colleges⁷ functioned during 2016-17 to 2018-19 without accreditation as they offered courses which were not stipulated in ICAR guidelines.
- Eight out of 12 UG courses during 2016-17 and 2017-18 and five out of 12 UG courses during 2018-19 in these 11 constituent colleges were not accredited as the University designed its own course curricula for these programmes.
- The three new colleges viz., Agriculture College and Research Institute at Thiruvannamalai, Kudumiyannalai and Eachangottai, which conducted UG courses, were eligible to apply for accreditation during 2018-19 but the same was not applied in that year.
- All PG / Ph.D programmes in the 10 constituent colleges under TNAU were not eligible for accreditation as they were not following BSMA regulations of Semester system and instead followed Trimester System of education during the period 2016-17 to 2018-19.
- Deans' Committee report (February 2017) highlighted that the UG Programme in Agri-business was not viable due to absence of core faculty and employment opportunities. Despite the same, TNAU admitted students for Agri-business programme during 2017-18 (42 students) and 2018-19 (41 students) without accreditation.

Absence of accreditation for the University in 2016-17 and obtaining of accreditation for 2018-19 in October 2018 led to non-admission of 147 and 134 UG students under All India Quota, under ICAR category during these two years. The delay in accreditation of TNAU led to non-obtaining of grants of ₹ 9.1 crore during 2016-17 from ICAR. This had also contributed in reduction of ICAR ranking as discussed in **Paragraph No. 6.1.9.2.**

GoTN stated (June 2020) that the pattern of examination has been changed to semester system from 2019 onwards and accreditation obtained. It was also stated that process of accreditation of new colleges would be initiated. The fact, however, remains that in the past many students completed their courses from these institutions without accreditation credentials.

6.1.7 Research Activities

As per TNAU Act, 1971, agriculture research organisations were established to undertake basic research on problems primarily relating to agriculture and allied sciences. Vision 2030 document envisages monitoring of progress of research by Heads of the Department, Deans, Directors and Vice Chancellor periodically. The research results are disseminated by publishing the findings in National and International journals and Agriculture magazines. The research findings are incorporated in Crop Production Guide to update the stock of technological advancements for increasing the agricultural production and productivity.

⁷ Out of 14 colleges, three colleges were eligible to apply for accreditation only in 2018-19 as they did not have at least one batch of students passed out during 2016-17 and 2017-18.

In NIRF, ranking Research and Professional Practice is an important parameter for assessment of university ranking by NIRF with a weightage of 30 *per cent*. ICAR ranking also give 30 *per cent* weightage to research activities.

6.1.7.1 Research Projects

The scientists of the university formulate need based sub-projects and prioritise them based on the intensity of the problem and availability of manpower. Apart from the University Research Projects, TNAU carried out All India Coordinated Research Projects with grants from ICAR.

TNAU undertook 453 University Research Projects during 2016-17 to 2018-19. Of these, 126 projects were completed and balance 327 projects were in progress. It was observed that completion reports and publication of research papers were finalised for 15 out of 126 completed projects. Out of 327 ongoing projects, 62 projects were continued beyond the due date and four projects were discontinued due to low performance and poor germination of seeds. TNAU also undertook 442 Externally Funded Research projects during 2016-17 to 2018-19, out of which 284 projects were completed and balance 158 projects were in progress. It was observed that 89 out of 158 projects were continued beyond the due date and the delay ranged between one month to 36 months.

It was also observed that TNAU could obtain only 11.52 out of 100 marks in NIRF ranking for the year 2019 in Research parameter.

GoTN replied (June 2020) that the publication of Research papers (final stage) of the project took one to two years which delayed the completion of research projects. It was assured that the projects would be monitored regularly. The fact, however, remains that TNAU did not monitor the research studies periodically as envisaged in the Vision 2030 document for early dissemination of research findings and this had also impacted TNAU ranking adversely.

6.1.7.2 Non-commencement of research

GoTN approved (October 2015) research⁸ study on yield sustainability and sanctioned ₹ nine crore for completion of research within one year (October 2016). The project aimed to maximise the crop yield thereby enhancing the farmers' income. The project included procurement of Rhizotron machines⁹, civil works for housing the machinery and a laboratory.

Based on the recommendations (March 2016) of the purchase committee, TNAU imported (February 2017) three units of Rhizotron from Canada on single quotation at a cost of ₹ 6.50 crore. The machinery was installed (August 2018) after completion of building works. TNAU incurred an expenditure of ₹ 9.17 crore.

After installation, the machinery could not be operated as each unit required 150 KVA electrical power. A separate electrical line was provided for one unit

⁸ Plant Health Manipulation through Innovative tools and Techniques – Rhizotron - based Plant-Soil-Microbe interaction studies.

⁹ M/s. Conviron, Canada - only global firm to develop custom - designed large sized Rhizotron facility.

of Rhizotron in November 2018 and research operations commenced in February 2019. Establishment of a separate transformer was sanctioned (July 2019) for ₹ 3.15 crore and tender specification was finalised (May 2020). The other two units are idle for want of adequate power supply since August 2018.

Thus, TNAU failed to ascertain the requirement of adequate power supply to operate these machineries for undertaking research prior to import of machinery leading to non-achievement of the objective of the research besides blocking of fund of ₹ 4.33 crore towards idle machinery.

GoTN accepted (June 2020) the audit contention and assured that establishment of transformer would be completed within four months.

6.1.7.3 *Registration under Protection of Plant Varieties and Farmers Rights Act, 2001*

Registration under Protection of Plant Varieties and Farmers Rights Act, 2001 was required to establish an effective system for protection of plant varieties, the rights of farmers and plant breeders and to encourage the development of new varieties of plants.

The Act also envisaged that compliance would stimulate investment for research, development of new plant varieties and ensure availability of high quality seeds and planting material to the farmers.

Audit observed that, after the enforcement of the Act, 109 agricultural crop varieties were released by TNAU, of which 30 varieties (28 *per cent*) were registered (October 2019) under this Act. Registration of balance 79 varieties¹⁰ with the concerned authority was pending. Delay in registration of plant varieties deprived the farmers of high quality seeds and planting materials.

GoTN accepted (June 2020) the audit observation and stated that proposals for 31 varieties had been finalised and would be submitted for registration. It was assured that efforts would be made to finalise the proposals for the balance 48 varieties at the earliest.

6.1.7.4 *Patent*

Section 46 (2) of TNAU Act, 1971 stipulated that all rights in respect of any investigations carried out by the University and patents obtained, shall be the absolute property of the University. The Intellectual Property Management Cell (IPMC) in the Department of Agricultural Economics, TNAU is responsible for filing of the patent applications, publications, patent examination and obtaining the patents from GOI.

The University developed 73 technologies / machines / equipment for which applications were filed for securing patents rights. Out of 73 applications¹¹ filed, TNAU was able to secure patents in respect of 11 applications only, 41 applications were deemed to be abandoned by GOI due to filing of incomplete

¹⁰ Rice (17), Sorghum (3), Cumbu (1), Ragi (3), Small millets (4), Red gram (1), Black gram (11), Green gram (4), Cowpea (3), Soyabean (1), Avarai (1), Groundnut (9), Sesame (3), Castor (2), Cotton (7), Sugarcane (5) and Forage crops (4).

¹¹ 22 applications upto 2010; 41 applications 2011 - 2015; 10 applications 2016 - 2019.

specifications/documents and 21 applications were pending¹² with GOI as of December 2019. Audit scrutiny of records relating to 41 unsuccessful applications revealed that the University did not initiate follow up action for timely re-submission of required documents/applications, with complete specification/responses, resulting in these applications becoming time barred.

According to Section 9 (1) of the Patent Act, 1970, where provisional specification for patent was filed, complete specification shall be filed within 12 months, otherwise the patent shall be deemed to be abandoned. As per Section 21 (1), where the patent application has been returned by the Controller, the application shall be re-submitted with necessary requirements. It was seen that 24 patent applications were abandoned due to non-filing of complete specification or non-furnishing of reply to the application returned by the authority.

According to Section 11 B of the Act, patent application shall be examined based on the applicant request submitted within 48 months. It was seen that 11 applications were deemed to be withdrawn as TNAU did not make a request for patent examination within 48 months. Further, patent application for multipurpose machine for roto tilling and bush cutting was withdrawn by TNAU for reasons not on record.

As per Section 15 of the Act, if the Controller is satisfied that patent application or specification did not comply with the provisions of the Act, the same can be refused. Five patent applications filed by TNAU were refused by the Controller under Section 15 of the Act as the applications did not provide the complete specifications of the patent applied for.

In order to ascertain the level of knowledge and awareness of Intellectual Property Rights / patenting process a survey was conducted among 302 final year students of the constituent colleges of TNAU. The survey revealed that 162 out of 302 students (54 *per cent*) did not have sufficient knowledge about the Intellectual Property Law on patents and patenting process of new technology and 44 out of 302 students (15 *per cent*) though aware of the Intellectual Property Law on patents did not know about the process of patenting.

Thus, failure of TNAU to file complete specification and to re-submit the patent applications with the required details led to non-receipt of 41 out of 73 patents between 2006 and 2015, despite efforts to develop new technologies and machineries.

GoTN stated (June 2020) that the inventors failed to furnish replies to the remarks of the patent office on time. The fact, however, remains that IPMC did not effectively co-ordinate with the inventors who were scientists of TNAU to ensure furnishing of replies within due dates.

As recommended by Audit, APC in the Exit Conference agreed to impart education to students on patent processes, conditions to be fulfilled and various time lines with the help of Intellectual Property specialist.

¹² More than five years – 11 applications; Between five and two years – 4 applications; Less than two years – 6 applications.

6.1.7.5 Non-collection of royalty

The technical know-how of latest technologies developed by TNAU by way of hybrid varieties of rice, maize, equipment, etc., was transferred to private players on payment of one-time licence fee and annual royalty at a prescribed percentage of their sales turnover. The transfer of technology was made through Memorandum of Understanding (MOU) between TNAU and private companies. As per the MOU the licencees need to furnish their Annual Accounts and sales turnover within three months of completion of the financial year to the Director of Agri Business Development, TNAU and the royalty amount had to be paid within 30 days of finalisation of accounts.

Audit noticed that the Director of Agri Business Development failed to watch the receipt of annual accounts from the licencees and to ascertain and collect the dues to the University promptly. It was seen that 30 new technologies and six hybrid seeds were commercialised by 31 private companies during the period from 2009 to 2017. Of the same, no royalty was paid by 26 companies till date.

6.1.8 Extension activities

The main functions of Directorate of Extension (TNAU), *inter-alia*, include dissemination of modern/latest technologies to farmers for improving productivity in agriculture and allied sciences, imparting need based training to farmers and extension programmes with the help of fourteen Krishi Vigyan Kendras (KVKs)

In addition to scrutiny of records of KVKs, a feedback of 50 farmers in each of the four selected KVKs was also obtained to assess the effectiveness of the activities of KVKs in imparting latest developments in agriculture. Audit observations are detailed in subsequent paragraphs:

Soil Test

ICAR parameter for ranking under the extension and outreach activities through KVK, included analysis of one lakh soil samples every year to assess the soil nutrients and to recommend best lime and fertilizer for the soil.

As against the requirement of one lakh soil samples every year, soil test conducted by the 14 KVKs in the State ranged between 4,463 and 5,760 during 2016-17 and 2018-19 respectively. The reason for shortfall in testing was unwillingness of farmers to bear the cost of testing¹³. Farmers' Survey in four KVKs revealed that 19 farmers required assistance of KVK in pest control method and diagnostic visit by scientists to their farms.

GoTN accepted (June 2020) the audit observation and stated that efforts would be made to subsidise the cost of tests to the benefit of farmers.

Training

- KVKs organise need based training to farmers to update their knowledge and skills in modern agricultural technologies related to technology assessment, refinement and demonstration and training of

¹³ For testing major nutrients in soil - ₹ 100 and micro nutrients - ₹ 150 per sample.

extension personnel, to orient them in the frontier areas of technology development. As against the target of 85 and 45 courses, training was imparted for 69 and 34 courses to farmers during 2016-17 and 2017-18 respectively in KVK Needamangalam. The shortfall in training was 19 and 24 *per cent* during 2016-17 and 2017-18 respectively. Consequently, as against the target of 1,775 farmers, 1,581 farmers were trained by the KVK, Needamangalam during 2017-18.

- In Tirupathisaram KVK there was shortfall of training of 573 farmers as against the target of 2,096, during 2018-19.
- Survey results revealed that On Farm Training and Front Line Demonstration was not conducted in the farms of 115 out of 200 farmers (58 *per cent*) in four KVKs¹⁴. On Farm Training on Tolerant paddy varieties was not conducted in the fields of 39 farmers in Tindivanam KVK. In Arupukottai KVK, training on cultivation of rice variety was not conducted in the fields of 34 farmers and quality seeds were not supplied to 26 farmers. 21 farmers¹⁵ stated that they were not provided with animal health care and poultry farming techniques by KVKs.

KVKs stated that vacancies in the post of subject matter specialists as the reason for shortfall in conduct of trainings.

GoTN accepted (June 2020) the audit point and stated that steps would be taken to minimise shortfalls in future.

Extension programme

KVKs conduct various programmes *viz.*, advisory services, diagnostic visits, scientist visit to farmers' field, farmers' seminar, exposure visits, etc., to create awareness about improved technologies to larger masses.

It was noticed from the test checked Needamangalam KVK that the achievement of Extension programmes was 741 and 400 as against the target of 983 and 1,204 during 2016-17 and 2017-18 respectively, with a shortfall of 25 *per cent* and 67 *per cent* in each of the years. Shortfall in extension programme impacted in the creation of awareness of improved varieties.

GoTN accepted (June 2020) the audit contention and stated that the proposed activities in the action plan could not be completed due to insufficient funds. It was assured that steps would be taken to obtain the budget and complete the activities as per action plan. The fact, however, remains that Government grant had not been fully utilised during 2016-17 to 2018-19 as discussed in **Paragraph No. 6.1.5.**

¹⁴ Arupukottai-34; Needamangalam-24; Tindivanam-39; and Thirupathisaram-18.
¹⁵ Arupukottai-6; Needamangalam-2; Thirupathisaram-2; and Tindivanam-11.

6.1.8.1 Non-conducting of Skill development training to rural youth

GoTN sanctioned (March 2015) ₹ 20 crore¹⁶ for establishment of Agricultural Skill Development Centre to provide one year certificate course to 10,000 rural youths in a period of 10 years. The course intended to provide skill development in maintenance and repairs of modern agricultural machinery. GoTN released (July 2015) the first instalment of ₹ 4.49 crore, but TNAU utilised only ₹ 0.31 crore during 2015-16. GoTN released (June 2016 and June 2017) the balance amount of ₹ 3.01 crore. TNAU completed the procurement of field operated equipment and electrical machinery for imparting training viz., tractors, CNC lathe, drilling machinery, wood working machinery, etc., (expenditure of ₹ 7.50 crore) in 2018-19 with delay of more than two years. The procured electrical machinery (costing ₹ 1.70 crore) could not be operated with the existing power supply of 20 KVA and hence a proposal was submitted (August 2019) for installation of separate electricity line and transformer for 120 KVA, to the University.

Thus, failure to ascertain the power requirement to operate the procured machinery resulted in non-achievement of envisaged objective during the three-year period (July 2016 to June 2019) besides blocking of funds of ₹ 1.70 crore due to non-utilisation of procured machinery.

GoTN replied (June 2020) that short term skill development training programmes were conducted for trainees, farmers and college students during 2018-19 utilising field machinery which did not require power supply. It was stated that long term training would be imparted utilising the electrical machinery after availability of adequate power supply. The fact, however, remains that the objective of providing skill development training to rural youth in maintenance of modern agricultural machinery remained unachieved.

6.1.8.2 Non-establishment of Water soluble fertilisers production unit

Water Soluble Fertilisers (WSFs) offer a sustainable solution for farmers to increase crop yield and reduce fertiliser usage in fields. WSFs provide nutrients to plants in a controlled manner, protect soil against harmful effects of excess fertiliser. It is more economical, user and environment friendly and also ensures sustainable agricultural productivity.

GoTN sanctioned (July 2017) ₹ 5.31 crore for establishment of three pilot WSFs production units at Coimbatore, Madurai, Killikulam, with the aim of conducting skill development programmes to farm graduates and entrepreneurs for starting new industrial units at village / block levels. TNAU proposed to establish the production unit at Coimbatore within one year and in other two places during the second year. Scrutiny of records at TNAU revealed that the construction of housing structure at Coimbatore commenced in March 2018 and in other two places in June 2018 for an agreement value of ₹ 1.67 crore. In the meantime, tender for purchase of machinery was invited

¹⁶ Infrastructure development inclusive of training hall, Workshop etc., - ₹ 9.00 crore (GoTN funds); Equipment and Machinery ₹ 7.50 crore (GOI funds) and Contingencies ₹ 3.50 crore (funds would be provided by TNAU) at Agriculture Engineering College and Research Institute, Kumulur. TNAU decided to utilise the existing building and hence did not forward proposals for release of GoTN funds of ₹ 9.00 crore.

(December 2017 and February 2018) and procurement of machinery was completed in March 2018 incurring an expenditure of ₹ 1.43 crore.

TNAU realised (July 2018) that the finalised housing structure with 25 feet height was not adequate to install the machinery, which had height exceeding 25 feet. TNAU prepared an estimate for modification of the structure with the latest schedule of rates (2019-20) and work was awarded (November and December 2019) for ₹ 1.43 crore. The work was pending completion.

Thus, failure of TNAU to design the roof of the production unit on the basis of the height of the machinery at the initial stages led to delay in commencement of production of WSFs to achieve the objective of increasing crop yield, reducing fertiliser usage in fields and conducting skill development programmes to farm graduates, besides avoidable expenditure towards revision of design of building.

GoTN replied (June 2020) that proper care in planning would be undertaken on similar projects and assured that such discrepancies would not happen in future.

6.1.8.3 *Non-promotion of water saving techniques among farmers*

GoTN accorded (September 2017) administrative sanction of ₹ 85.39 crore for implementation of On Farm Technology Assessment, validating and mainstreaming of promising crop husbandry practices to promote water savings techniques¹⁷ in 66 sub-basins during six years *i.e.*, 2017-2023. For implementation of the Scheme under Phase-I, GoTN accorded financial sanction of ₹ 9.86 crore¹⁸ for the financial year 2017-18.

Scrutiny of records revealed that TNAU spent (October 2019) only ₹ 3.24 crore¹⁹ and ₹ 6.62 crore had remained unutilised, for more than two years. While TNAU incurred 92 *per cent* on Management cost (outsourcing of technical staff), it incurred only 27²⁰ *per cent* on the scheme components. Even though the project aimed to promote water savings technology, TNAU failed to spend 97 *per cent* of the allocation on drip irrigation facilities. The reason for non-utilisation of drip irrigation was due to fixation of 75 *per cent* subsidy to the scheme as against 100 *per cent* subsidy provided by GoTN for other schemes.

GoTN stated (June 2020) that provision of 100 *per cent* subsidy for drip irrigation was approved and efforts would be made to achieve the objective of the scheme at the earliest.

¹⁷ Water savings techniques, *viz.*, Alternate Wetting and Drying Irrigation, Direct sowing of rice, drip irrigation, etc., provide improved service delivery through improved infrastructure and adoption of new technologies in Agriculture.

¹⁸ Management cost - ₹ 1.08 crore; inputs - ₹ 3.30 crore; capacity building - ₹ 2.76 crore; drip irrigation - ₹ 2.30 crore and institutional charges - ₹ 0.42 crore.

¹⁹ Management cost - ₹ 0.99 crore (92 *per cent*); inputs - ₹ 1.17 crore (35 *per cent*); capacity building - ₹ 1.00 crore (36 *per cent*); drip irrigation - ₹ 0.07 crore (03 *per cent*).

²⁰ (₹ 224.33 / ₹ 835.85 x 100 = 27 *per cent*).

6.1.8.4 Establishment of Community Radio Station

Twelfth Five Year Plan (2012-17) document highlighted that radio played a pivotal role in enriching the awareness level of farmers on farm technologies. The plan document proposed establishment of 28 Community Radio stations by TNAU across the State considering the benefits realised by the farmers through the existing Community Radio Station functioning at Coimbatore.

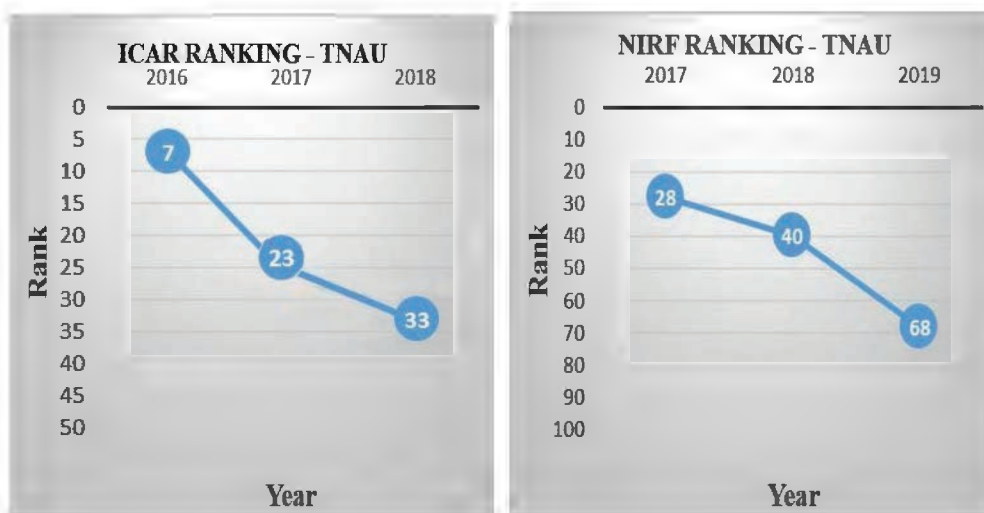
TNAU submitted (May 2015 to August 2017) proposals for establishment of Radio stations in 10 KVKs to the Ministry of Information and Broadcasting, Government of India. GOI directed (July 2019) for payment of annual spectrum charges of ₹ 23,500 but the same was not remitted till date due to absence of budget provision. The objective of enriching awareness level of farmers remained unachieved even after the lapse of 12th Plan period.

GoTN accepted the audit point and stated (June 2020) that non-establishment of community radio was due to absence of budget provision. The fact, however, remains that Government grant had not been fully utilised during 2016-17 to 2018-19 as discussed in **Paragraph No. 6.1.5.**

6.1.9 Ranking

6.1.9.1 Ranking of the University

The Agricultural Universities in the country are ranked annually by ICAR and also by Ministry of Human Resources and Development, GOI, through NIRF. The process of ranking helps Agricultural Universities in self assessing themselves on the quality of education and research and enhances their performance. Audit noticed that the ranking of TNAU by these two institutions has declined in the last three years, as represented below:



6.1.9.2 Indian Council of Agricultural Research ranking

State, Central and deemed Agricultural Universities are ranked annually by ICAR based on their performance in the preceding financial year. The ranking

envisaged weightage for Education²¹ (40 *per cent*), Research²² (30 *per cent*) and Extension and outreach²³ (30 *per cent*).

We observed that the ICAR ranking of TNAU had declined from seven in 2016 to 23 in 2017 and further reduced to 33 in 2018. The performance of the University on the aforesaid individual parameters could not be assessed as TNAU stated that the parameter-wise scores for ranking were not released by ICAR.

The following were the reasons for decline in ranking.

- Percentage of students admitted to PG courses through ICAR entrance examination with scholarships was less than five and without scholarship was less than 10 during 2017-2019.
- The number of research papers published in the ICAR approved National Academy of Agricultural Sciences database reduced from 304 (2016) to 110 during 2018.
- Absence of accreditation to the PG courses conducted by the University due to adoption of trimester as against the required semester system.
- In the revenue generation parameter, as against 30 *per cent* generated revenue of budget, TNAU could generate revenue of five to 10 *per cent* of Budget during 2017-19 and scored one out of 10 marks.

GoTN replied (June 2020) that action has been initiated to adopt semester system from 2019-20. It was stated that opening of new colleges led to reduction in percentage of revenue generation. It was also stated that research papers of TNAU were published in the database approved by NIRF. The fact, however, remains that performance of TNAU on various parameters like Education, Research, Extension and Outreach was not satisfactory, which resulted in continuous descending trend in TNAU ranking during the last three years.

6.1.9.3 National Institution Ranking Frame work

This framework outlines a methodology to identify the broad parameters for ranking various universities and institutions. The ranking envisaged weightage for Teaching, Learning and Resources (30 *per cent*); Research and Professional Practice (30 *per cent*); Graduation outcome (20 *per cent*); Outreach and inclusivity (10 *per cent*) and Perception (10 *per cent*). The parameters for ranking of the educational institutions have been chosen in such a manner that these are equally relevant for various kinds of educational institutions and rankings were awarded based on the inputs given by the concerned Universities.

²¹ Successful completion of course by UG students, quantum of admission of students in PG, Number of students completing their Ph.D thesis, Faculty merits and Accreditation, etc.

²² Grading of research articles of faculty members, Patents granted, varieties released and new farm machinery and tools developed, etc.

²³ Meritorious Awards received by KVKs and Extension workers, supply of quality inputs, soil samples analysed and resource generated, etc.

It was seen that the scores obtained by TNAU decreased in respect of four parameters viz., Teaching, Learning and Resources (77.67 out of 100 in 2017 to 74.72 in 2019); Graduation Outcome (75.33 in 2017 to 69.31 in 2019); Outreach and inclusivity (from 63.48 in 2017 to 45.10 in 2019); Research and Profession Practice (12.56 in 2017 to 11.58 in 2019). In respect of fifth parameter viz., Perception, the score had marginally increased (3.53 out of 100 in 2017 to 11.52 in 2019). However, the performance in this parameter is poor as TNAU scored only 11.52 out of 100.

Ranking of TNAU was 28 in 2017, 40 in 2018 and reduced further to 68 in 2019 among 200 conventional universities in India. The reasons attributed by TNAU for decrease in the ranking were lack of global employment of students; inadequate patenting and low levels of peer perception (publicity/propaganda / feedback survey); shortfall in participation of agricultural scientists in seminars and visit of foreign university faculties.

GoTN assured (June 2020) that all efforts were being taken to increase the NIRF ranking.

Thus, TNAU needs to improve significantly in the fields of education, research and outreach activities to fulfil its vision of world's top university in agriculture and technology.

6.1.10 Conclusion

Compliance audit on the functioning of Tamil Nadu Agriculture University revealed the following:

- The shortcomings in maintenance of financial statements and release of excess grants of ₹ 178.18 crore during 2016-17 to 2018-19 continued despite being recommended by PAC indicating inadequate compliance and absence of corrective measures for more than 10 years. The available funds were also not utilised by the TNAU to achieve its objectives.
- There was shortfall of 06 to 12 *per cent* during 2016-17 to 2018-19 in admission of students in the constituent colleges, shortage of laboratory equipment, vacancies in faculty and inadequate student-faculty ratio which hindered imparting of quality education to students.
- Machinery purchased for research were lying unused for want of adequate power supply. Delay in completion of research projects, including publication of papers led to non-achievement of envisaged objectives. The patents were not filed properly and no system was in place to ensure collection of royalty.
- Non-publication of results of research projects deprived the farming community of the research benefits.
- There were gaps in implementation of extension activities including training and machinery procured for extension activities remained unutilised leading to non-achievement of the envisaged objectives.

Thus, these limitations in imparting education, completion of research and implementation of extension activities adversely impacted institutional

position and progress as the ranking of the institution continuously deteriorated over the three-year period leading to non-fulfilment of the mission and vision of the University.

6.1.11 Recommendations

In the light of Audit observations, the TNAU may

- Ensure effective utilisation of the Government grants and University receipts and adopt double entry system of accounting.
- Adopt an effective system to fill up all the sanctioned seats through counselling to enable enrolment of the eligible candidates.
- Strengthen the monitoring mechanism for completion of research activities in time to disseminate the research findings to the stakeholders promptly. Expedite effective completion of patent process for the new technologies.
- Accelerate completion of sanctioned infrastructure for adopting latest technologies in Extension activities and to provide adequate skill development training to the farmers and rural youth.
- Focus on improvement in various parameters to upgrade the ranking, and thereby attract more Students.

6.2 Delay in implementation of National Mission on Food Processing

Delay in release of grants and furnishing of Utilisation Certificates by Government of Tamil Nadu for the sanctioned projects resulted in non-release of Government of India grants of ₹ 16.26 crore. Thus, the intended objectives of development of food processing sector and promotion initiatives for skill development were only partially achieved.

The Government of India, (GOI) launched (April 2012) a Centrally Sponsored Scheme – National Mission on Food Processing (NMFP) during 12th five-year plan (2012-2017). The basic objective of the Scheme was to augment the capacity of food processors to upscale their operations through capital infusion, technology transfer, skill up-gradation and handholding support.

The GOI issued (August 2012) detailed operational guidelines for implementation of NMFP Scheme. As per the guidelines, the funding pattern was in the ratio of 75:25 between GOI and Government of Tamil Nadu (GoTN). At National level, the Scheme was administered by Ministry of Food Processing Industries, whereas, at State level, the Scheme was to be administered by State Level Empowered Committee (SLEC). The GoTN further nominated (September 2012) Director, Agricultural Marketing and Agri-Business as State Mission Director and constituted various Committees²⁴ for project approval and monitoring as per the guidelines.

²⁴ NMFP projects were recommended by District Mission Committee under the Chairmanship of District Collector and cleared by Project Scrutinising Committee (PSC) / Project Technical Committee (PTC). These proposals were approved by SLEC based on recommendations from Project Approval Committee.

In 2012-13, GOI released funds in two instalments, i.e., ₹ 1.13 crore (April 2012) towards preparatory activities and ₹ 6.67 crore (September 2012) for main scheme activities. Since it was a new Scheme and the GoTN failed to make a provision as New Service in the Revised Estimates during the middle of 2012-13, a provision was made in final Supplementary Estimates (March 2013) and the corresponding State share of ₹ 2.60 crore could be released in March 2013, at the fag end of the financial year.

As per the guidelines, second instalment of the GOI share was to be released after 50 *per cent* utilisation of the sanctioned amount including State's share and on submission of Utilisation Certificate (UC) by the State.

Audit scrutiny of the records relating to allocation of budget and its utilisation revealed that there was inordinate delay in release of corresponding share by the GoTN and consequent implementation of the scheme. GOI withdrew (March 2015) the Scheme of NMFP assistance based on recommendations of 14th Finance Commission and instructed all the States to decide on continuance of the Scheme with State funds. An overview of projects approved and grants utilised till March 2015 is as follows:

Table No. 6.5: Details of projects approved and amount utilised

(₹ in crore)

Year	Amount released		Total amount released	No. of Proposals approved			Grant approved by SLEC	Total Grant utilised
	GOI	GoTN		DM C	PSC/PTC	SLEC		
2012-13	7.80	2.60	10.40	33	---	---	---	---
2013-14	--	--	--	58	66	29	13.24	2.39
2014-15	0.44	0.15	0.59	75	28	18	4.20	8.60
Total	8.24	2.75	10.99	166	94	47	17.44	10.99

(Source: Details furnished by the Department)

It was noticed that GOI had released ₹ 1.13 crore in April 2012 towards preparatory activities and ₹ 6.67 crore (September 2012) for main scheme activities, yet there were inordinate delays in carrying out physical preparatory works such as wider publicity for inviting proposals under NMFP, scrutiny of proposals, formation of NMFP cell etc., as a result of which the funds amounting to ₹ 2.39 crore could only be utilised till 2013-14.

There were delays ranging from one to 11 months in releasing first instalment of grants to entrepreneurs after approval of the projects by the SLEC due to delayed²⁵ forwarding of approval intimations to entrepreneurs. This led to delayed submission of required documents by the entrepreneurs. The delay in release of grants subsequently resulted in delay in utilisation of funds. GoTN submitted (September 2014) first UC for ₹ 7.01 crore after a delay of nearly two years from the date of sanction by GOI. The second and final UC of ₹ 10.99 crore was submitted by GoTN to GOI in May 2015. Due to non-receipt of UC within stipulated time for grants received in 2012-13, the GOI did not release grants as per sanction during the financial year 2012-13 to 2014-15 as detailed below:

²⁵ Delay of three months in seven cases, between one and two months in six cases and less than one month in 23 cases.

Table No. 6.6: Details of Grants approved and released by GOI as on 31.03.2015

(₹ in crore)

Year	Grant sanctioned by GOI	Amount released	Amount not released
2012-13	10.40	7.80	2.60
2013-14	8.16	--	8.16
2014-15	5.94	0.44	5.50
Total	24.50	8.24	16.26

The Scheme was shelved by the GoI in March 2015 on the recommendations of the 14th Finance Commission. Audit observed that as of March 2015, 47²⁶ projects involving Government grant of ₹ 17.44 crore were approved by SLEC and grant of ₹ 10.99 crore²⁷ was utilised. It was seen that of the 47 projects approved by SLEC, 22 received full grants, 20 partial grants and 05 nil grants. The 22 projects which received full grants started functioning. The 20 projects which received partial grants were entitled for ₹ 5.96 crores which was not released to them. Still out of these 20, 16 projects started functioning by investing the balance funds either through bank loan or of their own. Out of these 20, four projects did not start functioning due to non-receipt of funds. Five projects did not receive any grant out of approved grant of ₹ 1.85 crore.

In addition to above 47 projects, 28 other projects were also approved by the Project Approval Committee at a total cost of ₹ 5.99 crore but the same could not be approved by SLEC and operationalised in the absence of financial support by the GOI.

Thus, delay in release of grants and furnishing of UCs by GoTN for the projects sanctioned (March 2015) resulted in non-release of GOI grant amounting to ₹ 16.26 crore due to delinking of NMFP Scheme from Centrally Sponsored Scheme. Consequently, the intended objectives of development of food processing sector and promotion initiatives for skill development were only partially achieved.

In response to audit observations, the department stated (July 2019) that proposal has been submitted to State Government for continuation of the Scheme through State funds and the same is under consideration.

Recommendation: The Government must, in future, ensure timely release of funds within the duration of the scheme and also furnish Utilisation Certificates in time, to avail the full benefit of a Central Scheme. This would optimise utilisation of resources of the State.

²⁶ Cold chain facilities - 5; Food Processing units - 15; Food Processing (Reefer Vehicle) - 1; Human Resources Development (Infrastructure, Food processing training centre, Seminar, EDP, etc.) - 22; and Meat Shops - 4.

²⁷ Preparatory activities: ₹ 1.37 crore and Main scheme: ₹ 9.62 crore.

HIGHWAYS AND MINOR PORTS DEPARTMENT

6.3 Delay in settlement of dues amounting to ₹ 120.63 crore

Delay in submission of Completion Report for the completed Railway bridge works resulted in non-settlement of dues amounting to ₹ 120.63 crore.

Article 1816 of the Indian Railway Code for Engineering Department envisages construction of Railway Road Over Bridges (ROBs) / Road Under Bridges (RUBs) in lieu of Level Crossings (LC) on cost sharing basis between State Government and Railways. While the construction of ‘bridge proper’ is carried out by Railways from their own funds, the approaches to the ‘bridge proper’ is built by Highways Department (HD) utilising the State funds initially. The total cost of the bridge including approaches, is to be shared equally between Railways and HD, excluding land cost which would be borne by HD.

The combined cost estimates for the bridge proper and approaches are approved by both Railways and HD. Depending on the cost estimates for their respective portions of work, reimbursement claims are preferred for settlement on quarterly basis. On completion of ROB / RUB and closure of LC, 80 *per cent* of the eligible share of expenditure is paid by the Railway authorities and the balance after finalisation of accounts and submission of Completion Report (CR) by the HD.

Para 207 of Tamil Nadu Highways Manual Volume IV stipulates that CRs should not be kept pending due to delay in settlement of compensation for land acquisition.

The issue relating to delay in receipt of reimbursement claims amounting to ₹ 25.76 crore from Railways in respect of projects executed on cost sharing basis in respect of three test checked works was highlighted in the CAG’s Audit Report²⁸ of 2014. In response to Audit observation, the Highways Department had replied that action would be taken for early settlement of the claims. The position relating to follow up action, if any, initiated by the HD was reviewed during current Audit and it was seen that the situation had deteriorated in the last five years as the amount of reimbursement claims pending with the Railways increased to ₹ 224.13 crore (June 2019) as detailed below:

Table No. 6.7: Details of claims preferred by HD

(₹ in crore)			
Period	Expenditure incurred in excess of 50 <i>per cent</i> and claim preferred	Reimbursement received	Balance pending receipt
March 2002 to March 2010	188.45	81.14	107.32
April 2010 to March 2015	194.05	145.43	48.61
April 2015 to June 2019	234.04	165.84	68.20
Total	616.54	392.41	224.13

(Source: Details furnished by the Department)

²⁸ Para 2.1.7.2 of CAG Audit Report (Economic Sector), Government of Tamil Nadu for the year ended March 2014.

Scrutiny of records in the HD revealed that in majority of the works, expenditure on construction of approaches exceeded the expenditure of construction of bridge proper, leading to submission of claims by HD for reimbursement of the excess expenditure from Railways. Audit observed that HD had preferred (June 2019) reimbursement claims for the construction of bridge works in respect of 224 ROB/RUB undertaken during the period March 2002 to June 2019 amounting to ₹ 616.54 crore. Out of which ₹ 392.41 crore was reimbursed by Railways to HD and balance amount of ₹ 224.13 crore was still pending. The status of works in respect of claims preferred by HD is detailed below:

Table No. 6.8: Status of works carried out during the period March 2002 to June 2019

(₹ in crore)		
Description	No. of works	Amount to be received
Completed works	89	101.87
Ongoing works	55	81.88
Main works completed and sub-work in progress	27	36.15
Works at preliminary stage	50	4.22
Works deleted after incurring preliminary expenses	3	0.01
Total	224	224.13

Audit scrutiny of the case revealed that out of the 224 claims, works in respect of 89 pending claims amounting to ₹ 101.87 crore, were completed during the period from 2003 and 2018. However, CR in respect of 20 claims were sent to Railways in 2019 only. Of the remaining 69 claims, CRs for 30 completed works were pending finalisation by the field offices of HD without recorded reasons. The remaining 39 CRs were pending due to reasons like non-preparation of UCs, Court cases etc., and the claims could be settled only after finalisation of accounts and submission of CR by the HD to Railways. Delay in submission of CRs resulted in non-receipt of reimbursement claim of ₹ 101.87 crore incurred by HD for 89 bridge works leading to blocking of State funds.

In addition to these 89 completed bridges, six bridges were partially completed (September 2019). HD failed to complete sub-works viz., service lane, foot path for these bridges and hence they could not be put to use of general public. The reason for non-completion of sub-works was non-acquisition of work space by the Department prior to commencement of the works. The expenditure of State funds involved in these partially completed six bridge works was ₹ 89.17 crore. This expenditure included ₹ 18.76 crore to be reimbursed from Railways which resulted in blocking of funds.

While accepting the audit observation, HD stated (February 2020) that the reimbursement of claims from Railways is a periodical and continuous process and till date 33 Completion Reports have already been sent to Southern Railways. It further stated that sincere and effective steps were being taken to get reimbursement claim from Southern Railways.

The fact, however, remains that despite being pointed out by the Audit as far back as in 2014, HD failed to take suitable remedial measures to streamline the process of early settlement of claims. During the current Audit it was observed that the situation has further deteriorated. This is substantiated by the fact that the amount of claims pending to be settled has increased from ₹ 161.20 crore (June 2017) to ₹ 224.13 crore (June 2019). Delay in reimbursement of claim in respect of 89 completed Railway bridge works and non-completion of sub-works for the completed Railway bridge works resulted in blocking of State funds amounting to ₹ 120.63 crore²⁹.

Recommendation: Highways Department may take effective steps to obtain the reimbursement of its share of expenditure from the Railways at the earliest. Completion Reports and finalisation of accounts could be expedited, so that Government funds are not unnecessarily blocked.

ANIMAL HUSBANDRY, DAIRYING AND FISHERIES DEPARTMENT

6.4 Non-installation of equipment under National Programme for Dairy Development

Delay in procurement and installation of the required equipment led to non-fulfilment of the desired objective of preserving the quality of raw milk despite incurring an expenditure of ₹ 26.88 crore, besides non-receipt of GOI grant of ₹ 11.52 crore due to non-utilisation of funds.

Government of India (GOI), launched (February 2014) the National Programme for Dairy Development for creation of infrastructure for production, procurement, processing and marketing of milk. The scheme³⁰, including procurement of equipment, is implemented through Government of Tamil Nadu (GoTN) by the Tamil Nadu Co-operative Milk Producers Federation Ltd (Federation), District Co-operative Milk Producers' Union (DCMPU) and village level Milk Cooperative Societies (MCS)³¹.

At the village level Milk Cooperative Societies (MCS) collect the milk from villages and send them to nearby chilling centres/ Bulk Milk Coolers for intermediate cooling and thereafter to the dairy for further processing. The milk collected from MCS reaches the chilling centres through route vehicles which take more than three hours, thus affecting the quality³² of raw milk due to bacterial growth. Therefore, in the Detailed Project Report it was proposed to install Bulk Milk Coolers (BMCs) in MCS within a radius of 10 to 15 km to preserve the milk at the required temperature. It recommended installation of

²⁹ Includes ₹ 101.87 crore towards completed works and ₹ 18.76 crore towards incomplete works.

³⁰ Grant for establishment of Bulk Milk Cooler – 50 per cent; Grant for Automatic Milk Collection Unit and Data Processing Milk Collection unit – 100 per cent.

³¹ GoI grant is restricted to 50 per cent for installation of Bulk Milk Coolers (BMC).

³² When raw milk exposed to atmospheric variations for nearly three hours, the bacterial multiplication is very fast which in turn affects the quality. The Standard Plate Count in the milk increases and Methylene Blue Reduction Time (MBRT) gets reduced.

other equipment³³ also in the Societies, to reduce financial loss to the producers due to spillage/souring of milk/bacterial growth and make available quality milk to consumers, and ensure better returns to dairy farmers.

Based on the proposal (May 2017) of GoTN, GOI approved (June 2017) procurement of 210 BMCs, 504 Automated Milk Collection Units (AMCU) and 216 Data Processing and Milk Collection Units (DPMCU) at a cost of ₹ 23.24 crore³⁴ for the year 2017-18. First instalment of ₹ 11.81 crore was released (June 2017) by GOI directly to Federation with instructions to submit the Utilisation Certificate (UC) through State Government, along with other documents³⁵ for release of further funds. Similarly, for the year 2018-19, GOI approved (June 2018) ₹ 18.21 crore³⁶ for procurement of 45 BMCs, 701 AMCUs, 150 DPMCU and 103 Electronic Milk Adulteration Testers with Milk Analyser (EMATs)³⁷ and released (August 2018) ₹ 7.60 crore.

Purchase orders for supply of BMCs and other equipment was issued from August 2018 onwards. The supply schedule for BMCs was five months, DPMCU and EMAT was 20 weeks and AMCU was 30 days.

Audit observed that there were delays in placement of supply orders for procurement of BMCs and other equipment on account of obtaining necessary approvals, issuing tenders/revised tenders (due to cancellation of initial tender). Audit noticed that the Federation had so far incurred (October 2020) an expenditure of ₹ 26.88 crore on procurement of 220 BMCs, 1,205 AMCU, 150 DPMCU and 103 EMAT. However, due to non-installation of BMCs and other equipment, the problems which were existing prior to launch of this scheme, i.e, spillage/souring of milk, bacterial growth, poor quality of milk and resultant loss to dairy farmers, continue to exist.

Audit scrutinised the records of eight test checked³⁸ DCMPUs and details of distance travelled, milk collection time and the Methylene Blue Reduction Test (MBRT). Joint inspection with Federation officials of a chilling centre and a milk dairy in Kancheepuram – Tiruvallur circle was also undertaken. The test results of 10,295 MBRT³⁹ conducted in 30 days in eight DCMPUs revealed that the quality of milk was 'poor' in 5,214 tests (51 *per cent*) and the remaining 5,081 tests indicated 'fair' quality. None-of the 10,295 samples tested on these days in these locations was of either good or very good quality.

³³ Automated Milk Collection Unit, Data Processing and Milk Collection Unit and Electronic Milk Adulteration Tester with Milk Analyser.

³⁴ GOI share - ₹ 15.74 crore and Implementing Agency (Federation) share - ₹ 7.50 crore.

³⁵ Audited certificate of balance sheet and profit and loss account, Statement of expenditure and physical progress etc.

³⁶ GOI share - ₹ 15.19 crore and Implementing Agency (Federation) share - ₹ 3.02 crore.

³⁷ An equipment to detect harmful adulterants such as urea, salt, soda, detergent, liquid soap, caustic soda and Hydrogen peroxide in raw milk.

³⁸ Dharmapuri, Dindigul, Kancheepuram, Madurai, Salem, Tiruchirappalli, Vellore and Villupuram.

³⁹ The test conducted as per IS:1479 (Part III) – 1977- Indian Standard - Methods of Test for Dairy Industry – Bacteriological Analysis of milk. It is based on decolourisation time taken by raw milk on reaction with reagents. Decolourisation time of five hours and above - Very good; Between three and four hours - Good; Between one and two hours – Fair; 30 minutes - Poor.

The Joint Inspection of MBRT test results for one day revealed that the entire quantity of 27,625 litres of milk procured from 27 societies was of ‘poor’ quality⁴⁰. This ‘poor’ quality milk had been processed in the dairy and sold to consumers putting their health at risk.

Non utilisation of funds leading to non-receipt of grant:

The amount sanctioned/released by GoI for the project and the purchase orders and supply details of procurement of equipment are given in **Table Nos. 6.9 and 6.10** respectively.

Table No. 6.9: Details of amount/quantity of equipment sanctioned by GoI

(₹ in crore)

Description	Amount approved	GOI share	Amount released by GOI	Quantity of equipment			
				BMC	AMCU	DPMCU	EMAT
Sanctioned during 2017-18 (June 2017)	₹ 23.24	₹ 15.74	₹ 11.81	210	504	216	Nil
Sanctioned during 2018-19 (August 2018)	₹ 18.21	₹ 15.19	₹ 7.60	45	701	150	103
Total	₹ 41.45	₹ 30.93	₹ 19.41	255	1,205	366	103

(Source: Details furnished by Federation)

Table No 6.10: Details of equipment procured and supplied

Description	Quantity of equipment			
	BMC	AMCU	DPMCU	EMAT
No. of equipment approved	255	1,205	366	103
Purchase order issued (August 2018 to March 2020)	221	1,205	150	103
Received (July 2020)	220	1,205	150	103
Ordered but not yet received	01	Nil	Nil	Nil
Yet to be ordered	34	Nil	216	Nil

(Source: Details furnished by Federation)

Audit scrutiny of status relating to placement of order and their supplies revealed (till June 2020) the following:

- Despite the approval of 255 BMCs, the Federation had placed supply orders for procurement of 221 BMCs in August 2018 to March 2019. Procurement of balance 34 BMCs was under process of finalisation. Audit observed that as against the purchase order of 221, only 36 BMCs (16 per cent) were received within the stipulated delivery period (February 2019 to August 2019). 184 BMCs were received between

⁴⁰

30 minutes – Poor.

September 2019 to March 2020 with a delay ranging upto seven months. The remaining 45 BMCs were received during the period from January 2020 to March 2020. The Federation had neither monitored the delayed supply nor levied any penalty on the Vendor.

- The Federation could install only 53 (24 *per cent*) and the remaining 167 BMCs remained idle for more than six months pending completion of civil works. Federation stated (July 2020) that the BMCs were not installed due to delay in completion of civil works by the Co-operative societies on account of pandemic situation.
- The supply order for procurement of 1,205 AMCUs, for which funds were released in June 2017 and August 2018, was placed by Federation in March 2020 after a delay of more than 18 months due to cancellation of initial tendering process. Federation stated (July 2020) that 1,205 AMCUs were supplied to the respective District Unions but are yet to be installed due to pandemic situation.
- The total approval for DPMCU was 366, i.e., 216 for 2017-18 and 150 for 2018-19. Tenders invited (September 2017) for 216 DPMCU for 2017-18 were not approved (January 2019) by Board Level Tender Committee (BLTC) as the rates quoted by the L1 tenderer were subsequently found on higher side at commercial negotiation stage by BLTC and were therefore retendered. The supply order for procurement of 150 DPMCU which were approved for 2018-19 was placed in September 2019 and were received. Federation stated (July 2020) that 150 DPMCU were supplied to the respective District Unions but yet to be installed due to pandemic situation.
- The supply order for procurement of 103 EMAT was placed (September 2019) after one year from release of funds. Federation stated that 103 EMAT were supplied to the respective District Unions but yet to be installed due to pandemic situation.
- The total expenditure incurred by the Federation for the procurement of 220 BMCs, 1,205 AMCUs, 150 DPMCU and 103 EMAT was ₹ 26.88 crore till October 2020.

The reply furnished by Federation is not tenable. The Federation had received 175 BMCs till December 2019 and had installed only 53 BMCs till June 2020. Remaining 167 BMCs could not be installed, due to delay in completion of civil works/readiness of the sites ranging from 6 to 17 months. The Federation failed in synchronising the completion of civil structure with the receipt of equipment. Sufficient time was available for construction work as the first purchase order was placed in August 2018 and the first lot of BMCs were received in February 2019.

Delay in utilisation of first instalment of GOI grant led to non-receipt of subsequent grants from GOI to the tune of ₹ 11.52 crore⁴¹ for two years. Thus, even after incurring an expenditure of ₹ 26.88 crore, the delay in procurement/installation of the required equipment, the Scheme could not

⁴¹ GOI share ₹ 30.93 crore less received ₹ 19.41 crore – balance ₹ 11.52 crore.

fulfill the desired objectives of preserving the quality of raw milk, besides non-receipt of GOI grant of ₹ 11.52 crore.

Government accepted (February 2020) the audit contention and stated that delay in tendering process, BLTC approval and manpower shortage, non-finalisation of commercial negotiation and issuing revised tender due to cancellation of initial tenders were the reasons for delay in purchase of BMCs and other equipment. It was assured that all the equipment under the project would be obtained early. It was also stated that installation of BMCs would reduce transportation time and the quality of milk would improve from fair to good.

Recommendation: The Department may complete the procurement and installation of the equipment early so that equipment could be utilised for preservation of the quality of milk supplied for consumption of general public as supply of poor quality milk is a public health hazard. It is further recommended that in future, the Department must plan and synchronise procurement and installation activities especially in case of schemes with GOI grant. This would enable the State Government to save its precious resources and also pass on the benefit to the intended beneficiaries.

PUBLIC WORKS DEPARTMENT

6.5 Delay in recovery from defaulting contractors

Delay in recovery of additional expenditure of ₹ 1.83 crore for completion of balance building works from defaulting contractors due to ineffective pursuance and non-recovery of ₹ 0.17 crore due to non-renewal of bank guarantees.

Clause 57.1 of General Conditions of Contract (GCC) of Tamil Nadu Building Practice (TNBP) stipulates that time is considered to be the essence of contract. If at any time, the Executive Engineer (EE), is of the opinion that the contractor is delaying the progress of the work, as per provisions of agreement, EE shall demand compliance. If the contractor neglects to comply with such demand within seven days after receipt of such notice, EE shall impose a penalty or terminate the contract.

Clause 57.4 of TNBP further stipulates that on termination of contract, Security Deposit (SD) received from the contractor shall be forfeited and EE is empowered to award any part of the work of the unexecuted portion of the contract to any other contractor, in which case all expenses incurred, in excess of already contracted amount, for completing the work shall be deducted from any money due to the original contractor by the Government under this contract or any other account whatsoever.

The Public Works Department concluded seven contracts relating to construction of building works⁴² in five Divisions⁴³ with a provision for

⁴² Class rooms, Laboratories, hostel, court building and quarters.

⁴³ Coimbatore, Erode, Ramanathapuram, Tirunelveli and Villupuram.

deduction of excess expenditure from the contractor in the event of termination of contract. Details of all the seven contracts are as follows:

Table No. 6.11: Details of seven contracts concluded

Sl. No	Name of the contractor	Amount (₹ in lakhs)	Date of commencement / Scheduled date of completion	Date of Termination
1	M/s. A.R.M. Constructions	217.59	18.10.2010 / 17.04.2012	15.10.2013
2	M/s. Ganesh Construction	87.24	04.10.2011 / 03.08.2012	16.02.2015
3	M/s. S.R.P. Constructions	129.84	13.09.2013 / 13.09.2014	08.04.2015
4	G. Sahayadhas	79.09	31.12.2010 / 31.07.2011	24.06.2013
5	V. Ukkirapandian	47.00	04.10.2010 / 19.04.2011	27.03.2013
6	M/s. Excellent Constructions	581.11	26.02.2011 / 26.02.2012	11.09.2015
7	M/s. A.G.R. Engineering Construction	160.90	08.02.2012 / 07.02.2013	03.07.2015
	Total	1,302.77 (₹ 13.03 crore)		

The execution of seven works was not in accordance with the stipulations of the agreement and EEs of the Divisions issued notices⁴⁴ periodically to complete the works in time. Despite the same, the contractors failed to do so. Hence EEs of the Divisions terminated (March 2013 to September 2015) all the seven contracts, with instructions to complete the balance works at the risk and cost of the original contractors. The value of work done upto termination was ₹ 7.31 crore. The termination notices also stipulated recovery of additional expenditure for completion of balance works from original contractors through Revenue Recovery Act. Department assessed the value of balance works to be executed as ₹ 7.77 crore. Department awarded (February 2014 to September 2017) balance seven works to other contractors for ₹ 7.96 crore. These were completed (December 2015 to July 2019) at a cost of ₹ 7.17 crore. Department arrived at the additional expenditure recoverable from the original contractors of seven works as ₹ 2.31 crore (**Annexure 6**).

Audit scrutiny of records relating to recovery effected by the Department revealed the following:

- Executive Engineers issued recovery notices between June 2016 and February 2020 to seven defaulting contractors for payment of the additional expenditure of ₹ 2.31 crore with a delay ranging from three to 10 months from the completion of the work. After deducting the payments of ₹ 0.48 crore due to them, the balance amount recoverable from these seven contractors was ₹ 1.83 crore (**Annexure 7**). As the balance amount was not paid by these contractors, Departmental officials were required to invoke the provisions of Revenue Recovery Act promptly to recover the dues in co-ordination with Revenue Department. However, Audit observed that there was a delay ranging from 10 to 43 months in respect of six works for initiating the process to recover the dues in co-ordination with Revenue Department. Moreover, in respect of one work, Department could not invoke the

⁴⁴ Between March 2012 and August 2015.

provisions of Revenue Recovery Act even after a delay of four years from the issue of notice, due to forwarding of proposals incorrectly to District Collector, Coimbatore instead of Dindigul. Thus, recovery of ₹ 1.83 crore is pending as on March 2020.

- As against the SD of ₹ 26.40 lakh to be forfeited for seven works, SD of ₹ 9.80 lakh only was remitted to Government Accounts in respect of four works. The remaining SD of ₹ 16.60 lakh for three works could not be remitted due to non-renewal of Bank Guarantees (BGs). Audit observed that the BG for these three works expired (between June 2012 and February 2014) before the termination (between February 2015 and September 2015) of the original contract. Department failed to renew these BGs during the currency of the contract or immediately after termination of the contracts. Thus, delay in issue of recovery notices, ineffective pursuance for recovery of extra expenditure through Revenue Recovery Act and non-renewal of BGs on expiry obtained as SD led to non-realisation of Government dues of ₹ 2.00 crore⁴⁵ (March 2020).

Department accepted (June 2020) the audit observation and stated that necessary action had been initiated for recovery of the balance amount through Revenue Recovery Act in all the seven cases. The fact, however, remains that Departmental officials failed to initiate timely action for recovery of Government dues under Revenue Recovery Act.

Recommendation: Department should evolve a system to initiate recovery proceedings promptly for recovery of Government dues and to renew the Bank Guarantees, received as security, prior to their expiry. Responsibility must be fixed in cases where Bank Guarantees were not renewed due to negligence.

⁴⁵ ₹ 1.83 crore represents recovery yet to be effected from seven contractors, ₹ 0.17 crore represents non recovery due to non-renewal of bank guarantee.

6.6 Inadequate enforcement of Government Regulations in ground water management

Inadequate enforcement of Regulations by Public Works Department resulted in indiscriminate drawal of ground water by water based industries in Over-Exploited and Critical areas, besides non-realisation of service charges of ₹ 71.22 lakh annually.

In view of the water scarcity, the Government of Tamil Nadu (GoTN) had re-categorised⁴⁶ (March 2012) blocks for ground water development in the State and restricted ground water extraction by water based companies in Over Exploited and Critical blocks⁴⁷. GoTN further revised (June 2016 and October 2018) categorisation of areas on the basis of Revenue Firkas⁴⁸.

As per the Regulations⁴⁹, the groundwater can be extracted, only after obtaining the 'No Objection Certificate (NOC)' from Chief Engineer, State Ground and Surface Water Resources Data Centre (SG&SWRDC), Tamil Nadu, on payment of service charges of ₹ 6,000. This NOC for drawal of groundwater requires annual renewal. Further, NOC from SG&SWRDC is a prerequisite for obtaining clearances from Bureau of Indian Standards (BIS) for quality assurance of packaged water and pollution clearance from Tamil Nadu Pollution Control Board (TNPCB).

Audit observed that there was no system to ensure co-ordination between above departments to regulate extraction of groundwater from Over-Exploited and Critical Revenue Firkas. Audit also found that there was no uniformity in the validity period of authorisations issued by the three agencies, viz., NOC is issued by Chief Engineer, SG&SWRDC for a period of one year; BIS licence is issued for two years; and Consent to Operate (CTO) permission is issued by TNPCB for a period of one to 10 years.

As of October 2019, Audit scrutiny of licences granted (during the period 2016-2019) to packaged drinking water companies by BIS revealed the following:

⁴⁶ Over exploited, critical, semi-critical and safe blocks depending on extraction of ground water were notified as A Category – where stage of Ground water extraction is 90 *per cent* and above and all the semi-critical and Safe blocks were notified as B Category – where Stage of Ground water extraction is below 90 *per cent*.

⁴⁷ Where water exploitation is 90 *per cent* more than replenishment.

⁴⁸ A Firka is a revenue division comprising of few revenue villages. All over exploited and critical Firkas were notified as A Category Firkas; semi-critical and safe Firkas were notified as B Category Firkas.

⁴⁹ Regulations for management of Ground water in the State (July 2014) extend to the whole of the State of Tamil Nadu except the areas covered under Central Metropolitan Area Ground Water (Regulation) Act, 1987.

The Regulations stipulate that obtaining NOC from SG&SWRDC was a prerequisite for obtaining clearances from BIS. However, out of 1,368⁵⁰ packaged drinking water companies operating in Tamil Nadu, only 181 companies (13 *per cent*) had obtained NOC from Chief Engineer, SG &SWRDC. The balance 1,187 companies (87 *per cent*) were operating with BIS licence but had not obtained NOC from SG&SWRDC. The risk of not obtaining/non-renewal of NOCs would lead to over exploitation and indiscriminate use of ground water in already critical areas apart from loss of service charges of ₹ 71.22 lakh⁵¹ annually.

- As per BIS records 1,368 companies were operating (October 2019) with BIS licences in drawal of ground water in Tamil Nadu. Audit observed that TNPCB issued CTO permissions to only 165 packaged drinking water companies during 2015-16 to 2017-18. Moreover, out of these 165 companies, 69 companies were operating without NOC from SG&SWRDC.
- Audit observed that more than 50 *per cent* of Revenue Firkas in 10⁵² out of 31 districts in the State were categorised as Over-Exploited and Critical area for exploitation of ground water by GoTN. 405 packaged drinking water companies were operational in these 10 districts. Test check of records of Vellore and Villupuram districts revealed that 42 out of 134 packaged drinking water companies were operating in Over-Exploited and Critical Revenue Firkas. Only two companies out of these 42 companies (five *per cent*) possessed valid NOC; 33 companies were operating without NOC and seven companies were operating with expired NOCs.

Thus, it was seen that BIS and TNPCB granted licence/CTO to packaged drinking water companies without ascertaining the fact as to whether those companies had obtained NOCs/renewed the expired NOCs from CE, SG&SWRDC. Inadequate enforcement of Regulations by the field officials of Public Works Department resulted in indiscriminate drawal of ground water by water based industries in Over-Exploited and Critical areas. Operation of these companies without having valid NOC also resulted in loss of Service Charges to the Government to the tune of ₹ 71.22 lakh in a year.

While agreeing to above Audit observations, the Public Works Department stated (March 2020) that Draft Ground Water Act (to ensure that companies/persons involved in illegal and indiscriminate extraction of ground water are penalised) is under consideration of Government. It was also stated that notices had been issued to the companies operating illegally and action had been initiated to close them. It was also stated that steps would be taken for recovery of Service Charges from the defaulting companies.

⁵⁰ As per BIS records (excluding Chennai District - the area was covered under Central Metropolitan Area Ground Water (Regulation) Act, 1987).

⁵¹ $(1,368 - 181) = 1,187 \times ₹ 6,000 = ₹ 71.22 \text{ lakh}$ (Calculated for minimum period of one year).

⁵² Coimbatore, Dharmapuri, Dindigul, Karur, Namakkal, Salem, Thanjavur, Tiruppur, Vellore and Villupuram.

Recommendation: Government may put in place a single window system to regulate the issue of licences to ensure judicious drawal of water. The above instances highlighted were from the test check of records and hence, it is also recommended that there is a need to ensure and monitor strict compliance of NOCs issued in notified areas. The Government may consider imposition of a strict fine / penalty on defaulting companies / persons operating in restricted areas without valid NOC / licence.



(VISHWANATH SINGH JADON)
Accountant General (Audit-II)
Tamil Nadu and Puducherry

Chennai
The 07 Feb 2021

Countersigned



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi
The 08 Feb 2021

ANNEXURES

Annexure 1

(Referred to in Paragraph 1.8)

Statement showing the details of audits planned and conducted during the year

Sl. No.	Name of the Department	Nature of receipts	Auditable Offices	Offices planned	Offices audited
1	Commercial Taxes and Registration	Sales Tax and other receipts	443	150	150
		Stamp duty and Registration fee	599	18	18
2	Revenue	Urban Land Tax	24	0	0
		Land Revenue	285	30	30
3	Home (Transport)	Taxes on vehicles	95	0	0
4	Home	Motor Vehicle Maintenance Organisation	22	5	5
5	Home (Prohibition and Excise)	State Excise	77	0	1
6	Industries	Mines and minerals	32	0	0
7	Energy	Electricity duty	24	10	10
8	Treasury and Accounts	Asst. Supdt. of Stamps	1	0	0
Total			1,602	213	214

Annexure 2

(Referred to in Paragraph 2.4.3.1)

Issue of acknowledgement, deficiency memo, provisional and final refunds

Sl. No	Particulars	Criteria as per SGST Act/ Rules 2017	Time limit fixed in the SGST Act and Rules	Cases wherein notices/ orders issued after prescribed time limit		Cases wherein notices/ refunds not issued and non-receipt of reply from dealers		Ratio (Out of Total 6,287 applications)
				No. of assessment circles	No. of cases	No. of assessment circles	No. of cases	
1	Issue of Acknowledgement in FORM GST RFD-02	Rule 90(2)	Within 15 days of filing the refund application	37	1,598			25.42
2	Issue of deficiency memo in GST RFD-03	Rule 90(3)	within 15 days of date of filing of refund application	8	26			0.41
3	Non-issue of notice in Form GST RFD-08 to dealers requiring him to furnish a reply in FORM GST-09	Rule 92(3)				20	279	4.43
	Non-receipt of reply from the dealers in FORM GST-09					5	47	
4	Issue of provisional refund in FORM GST RFD-04	Rule 91(2)	Within 7 days from the date of acknowledgement	25	274			4.35
	Delay in Credit of provisional refund	Rule 91(2) and Circular instructions ¹		10	406			6.45
5	Issue of final refund in FORM RFD-06	Section 54(7)	Within 60 days from the date of receipt of application	36	1,006			16.00
	Delay in Credit of final refund	Section 54(7) and Circular instructions		11	167			2.65
	Non-issue of final refund in FORM-RFD-06	Section 54(7)				17	789	12.54

¹ Circular No.79/53/2018-GST dated 31 December 2018 issued by the Central Board of Indirect Taxes and Customs.

Annexure 3
(Referred to in Paragraph 5.6.3)
Department-wise details of Inspection Reports
and Paragraphs pending

Sl. No.	Name of the Department	Number of Outstanding	
		Inspection Reports	Audit Observations
1	Public Works Department (Water Resources)	129	357
	Public Works Department (Buildings)	140	358
2	Highways and Minor Ports	233	715
3	Environment and Forests	138	546
4	State Autonomous Bodies	44	171
5	Agriculture	185	633
6	Animal Husbandry	49	280
	Dairy Development	19	66
	Fisheries	22	79
7	Handlooms and Textiles	48	164
	Khadi and Village Industries	0	0
8	Industries	4	13
9	Micro, Small and Medium Enterprises	49	118
10	Tourism	11	40
11	Information and Technology	0	0
Total		1,071	3,540

Annexure 4
(Referred to in Paragraph 6.1.6.4)

Details of students got placement and continued higher studies

Sl. No.	Description	UG Students			PG students		
		2016-17	2017-18	2018-19	2016-17	2017-18	2018-19
1	No. of students registered for placement	897	891	1,130	446	424	464
2	No. of students got placement	198 (22)	190 (21)	213 (19)	192 (43)	131 (31)	121 (26)
2a.	Agro allied industries	111	156	182	103	100	100
2b	Opted for entrepreneur	2	2	10	1	2	0
2c	Government /Public Sector Bank	79	26	18	88	29	21
2d	Global Employment	6	6	3	-	-	-
3	No. of students continued higher studies	210 (23)	240 (27)	238 (21)	136 (31)	105 (25)	96 (21)
3a	Higher Education	203	235	234	132	102	96
3b	Abroad Higher Education	7	5	4	-	-	-
3c.	ARS selections by ASRB	-	-	-	4	3	0
4.	No. of students neither got placement nor pursue the higher studies	489 (55)	461 (52)	679 (60)	118 (26)	188 (44)	247 (53)
	Total (UG Students)	2,918					

ARS - Agricultural Research Scientist, ASRB- Agricultural Scientist Recruitment Board

Annexure- 5**(Referred to in Paragraph 6.1.6.5)****Shortage of Laboratory equipment in test checked colleges**

HC &RI, Periyakulam,			
Name of the Lab	Total no. of items/quantity required to be kept in the lab as per Deans committee Report	Total no. of items kept in the lab	Shortages
UG Lab	26/178	7/10	19/168 (73)
Centralized Lab	36/76	0/0	36/76
PG lab	71/263	33/40	38/223 (54)
Post harvest Management Lab	17/11	3/3	14/8 (82)
Vegetables processing and preservation lab	71/120	9/11	62/109 (87)
AEC&RI, Kumulur			
Soil and Water Conservation	8/13	5/8	3/5 (38)
Irrigation and Drainage Engineering	27/97	27/67	0/30
Processing and food Engineering	34/43	17/31	17/12 (50)
Renewable Energy and Engineering	37/37	20/26	17/11 (46)
Basic Engineering and Applied Sciences	60/461	37/267	23//194 (38)
Mechanical Engineering	49/83	28/69	21/14 (43)
Electrical and Electronics Engineering	28/183	24/261	4/0 (14)
Physics and Chemistry	17/23	8/14	9/9 (53)
FC&RI, Mettupalayam			
Silviculture and Agro Forestry and Natural Resources Management	76/178	24/44	52/134 (68)
Forest Product and Tree improvement plus Wild life science	33/183	01/01	32/182 (97)
Forest Biology and Tree	88/262	10/10	78/252 (89)
Basic Social Science	11/31	01/03	10/28 (91)

Annexure 6

(Referred to in Paragraph 6.5)

Details showing the delay in issue of termination order and the action taken for recovery under Revenue Recovery Act

Sl. No	Name of the office	Name of the work	Value of work done / Date of completion (₹ in lakh)	Additional expenditure incurred (₹ in lakh) Date of notice issued for recovery	Delay in issue of termination order (in months)	Date of issue of reminder for recovery	Date of issue of reminder to Bank for renewal of BG	Date of action initiated for recovery under Revenue Recovery Act	Delay in action taken for recovery under Revenue Recovery Act (in months)	Delay in recovery of Government dues from the date of issue of notice (as of March 2020)
1	2	3	4	5	6	7	8	9	10	11
1	EE PWD, Buildings C&M Division, Erode	Construction of 42 class rooms, Laboratory, 04 toilets, etc., in Govt. Hr. Sec. School at Iyyankalipalayam	176.05 20.06.2016	59.96 31.03.2017	9	01.08.2017 07.10.2017 13.08.2018 29.10.2018 10.07.2019	--	21.02.2020	33	36
2	EE PWD, Buildings C&M Division, Coimbatore	Construction of 10 class rooms, Science Laboratory, etc., in Govt. Girls Hr. Sec. School at Kottur	77.06 31.12.2015	24.46 21.06.2016	5	25.07.2016 01.09.2016	21.01.13 10.02.15 19.06.15	10.03.2020	43	45
3		Construction of 12 class rooms, Laboratory, etc., in Govt. Hr. Sec. School at Kannivadi	95.53 29.02.2016	9.15 21.06.2016	3	29.08.2016	--	Recovery proposal was incorrectly forwarded to District Collector, Coimbatore on 22.01.20 instead of Dindigul	Final action yet to be taken	45
4	EE PWD, Buildings C&M Division, Tirunelveli	Construction of 12 class rooms, Laboratory, etc., in Govt. Hr. Sec. School at Pazhavoor	103.10 30.03.2016	38.96 23.12.2016	8	No reminder issued	--	05.12.2017	10	39

5	EE PWD, Buildings C&M Division, Ramanathapuram	Construction of Government Hostel for school girls at R.S. Mangalam	68.13 01.07.2019	30.11 26.02.2020	7	04.05.2020	--	01.09.2020	6	1
6	EE PWD, Buildings C&M Division, Villupuram	Construction of combined Court Building and Quarters for Sub Judge in Court campus at Kallakurichi	108.90 02.06.2016	39.91 05.05.2017	10	23.06.2017 29.11.2017	--	01.11.2018	16	34
7		Construction of 20 class rooms, Science Laboratory, etc., in Govt. Hr. Sec. School at Sitheripattu	88.34 26.08.2016	28.29 5.5.2017	8	13.07.2017 31.08.2017 29.11.2017 18.01.2018	17.12.12 17.03.14 18.05.17 15.06.17 28.07.17	18.02.2020	31	34
Total			717.11	230.84						

Annexure 7
(Referred to in Paragraph 6.5)

Details showing the amount recoverable from the contractor for the terminated works

SL. No	Name of the office	Name of the work	AS date and Amount RAS and amount	Date of approval of work/ Name of the contractor / Agreement amount	Date of commencement / Scheduled date of completion / period of contract	Date of Termination	Value of work done upto termination (₹ in lakh)	Balance work pending completion (₹ in lakh)	Name of the Contractor / Agreement amount for balance work and date (₹ in lakh)	Value of work done / Date of completion (₹ in lakh)	Additional expenditure incurred (₹ in lakh) Date of notice issued for recovery	Amount recoverable from contractor after deducting payment due to the contractor (₹ in lakh)
1	2	3	4	5	6	7	8	9	10	11	12	13
1	EE PWD, Buildings C&M Division, Erode	Construction of 42 class rooms, Laboratory, 04 toilets, etc., in Govt. Hr. Sec. School at Iyyankalipalayam	11.11.2008 ₹ 242.29 lakh / 03.03.2016 ₹ 298.12 lakh	06.07.2010 M/s. A.R.M. Constructions ₹ 217.59 lakh	18.10.2010 / 17.04.2012 18 months	15.10.2013	85.7	189.75	M/s. Arul Nandis Engineering Construction Company / 195.40 / 10.02.2014	176.05 20.06.2016	59.96 31.03.2017	51.51
2	EE PWD, Buildings C&M Division, Coimbatore	Construction of 10 class rooms, Science Laboratory, etc., in Govt. Girls Hr. Sec. School at Kottur	21.09.2010 ₹ 84.93 lakh / 16.12.2016 ₹ 125.59 lakh	04.02.2011 M/s. Ganesh Construction ₹ 87.24 lakh	04.10.2011 / 03.08.2012 10 months	16.02.2015	12.47	73.47	T. Kumarasamy / 77.06 12.06.2015	77.06 31.12.2015	24.46 21.06.2016	24.46
3		Construction of 12 class rooms, Laboratory, etc., in Govt. Hr. Sec. School at Kannivadi	12.11.2012 ₹ 129.40 lakh / 16.12.2016 ₹ 154.95 lakh	24.01.2013 M/s. S.R.P. Constructions ₹ 129.84 lakh	14.09.2013 / 13.09.2014 12 months	08.04.2015	41.5	91.12	M/s. M. Murugesan & Co / 95.63 / 19.06.2015	95.53 29.02.2016	9.15 21.06.2016	9.15
4	EE PWD, Buildings C&M Division, Tirunelveli	Construction of 12 class rooms, Laboratory, etc., in Govt. Hr. Sec. School at Pazhavor	19.01.2010 ₹ 82.29 lakh / 20.04.2015 ₹ 116.55 lakh	30.07.2010 G. Sahayadhas ₹ 79.09 lakh	31.12.2010 / 31.07.2011 7 months	24.06.2013	8.91	104.57	M/s. Ezhil Enterprises / 107.68 / 23.09.2015	103.10 30.03.2016	38.96 23.12.2016	34.59

1	2	3	4	5	6	7	8	9	10	11	12	13
5	EE PWD, Buildings C&M Division, Ramanathapuram	Construction of Government Hostel for school girls at R.S. Mangalam	17.11.2008 ₹ 54.74 lakh 31.03.2017 ₹ 83.21 lakh	11.08.2010 V. Ukkira- pandian ₹ 47.00 lakh	04.10.2010 / 19.04.2011 195 days	27.03.2013	8.99	64.99	N. Senthil- kumar / 68.18 / 15.09.2017	68.13 01.07.2019	30.11 26.02.2020	28.45
6	EE PWD, Buildings C&M Division, Villupuram	Construction of combined Court Building and Quarters for Sub Judge in Court campus at Kallakurichi	26.08.2009 ₹ 754.22 lakh 08.12.2014 ₹ 799.66 lakh	27.04.2010 M/s. Excellent Constructions ₹ 581.11 lakh	26.02.2011 / 26.02.2012 12 months	11.09.2015	498.58	129.72	M.M. Ravi / 129.39 / 29.12.2015	108.90 02.06.2016	39.91 05.05.2017	13.02
7		Construction of 20 class rooms, Science Laboratory, etc., in Govt. Hr. Sec. School at Sitheripattu	21.09.2010 ₹ 149.98 lakh	11.11.2011 M/s. A.G.R. Engineering Construction ₹ 160.90 lakh	08.02.2012 / 07.02.2013 12 months	03.07.2015	74.5	122.91	M/s. G.R.M. Construction / 122.60 / 12.01.2016	88.34 26.08.2016	28.29 5.5.2017	21.62
		Total	₹ 14.98 crore / ₹ 17.28 crore	₹ 1302.77 lakh or ₹ 13.03 crore			₹ 730.65 lakh or ₹ 7.31 crore	₹ 776.53 lakh or ₹ 7.77 crore	₹ 795.94 lakh or ₹ 7.96 crore	₹ 717.11 lakh or ₹ 7.17 crore	₹ 230.84 lakh or ₹ 2.31 crore	₹ 182.80 lakh or ₹ 1.83 crore

AS: Administrative Sanction; RAS: Revised Administrative Sanction

GLOSSARY OF ABBREVIATIONS

GLOSSARY OF ABBREVIATIONS

AA	Assessing Authority
AG	Accountant General
AMCU	Automated Milk Collection Unit
APC	Agriculture Production Commissioner and Principal Secretary to Government
ARN	Acknowledgement Reference Number
ASF	Administrative Service Fee
ATN	Action Taken Note
BG	Bank Guarantee
BIS	Bureau of Indian Standards
BLTC	Board Level Tender Committee
BMC	Bulk Milk Cooler
BSMA	Broad Subject Matter Area
CAG	Comptroller and Auditor General of India
CCT	Commissioner of Commercial Taxes
CBIC	Central Board of Indirect Taxes and Customs
CGST	Central Goods and Services Tax
COPU	Committee on Public Undertakings
CR	Completion Report
CST	Central Sales Tax
CTD	Commercial Taxes Department
CTO	Consent to Operate
DCMPU	District Co-operative Milk Producers' Union
DPC	Duties, Powers and Conditions of Service
DPMCU	Data Processing and Milk Collection Units
DR	District Registrar
ED	Excise Duty
EE	Executive Engineer
EMAT	Electronic Milk Adulteration Tester
ESO	Excise Supervisory Officers
GCC	General Conditions of Contract

GoI	Government of India
GoTN	Government of Tamil Nadu
GST	Goods and Services Tax
GSTC	GST Council
GSTIN	Goods and Services Tax Identification Number
GSTN	Goods and Services Tax Network
HC&RI	Horticulture and Research Institute
HD	Highways Department
ICAR	Indian Council of Agricultural Research
IGR	Inspector General of Registration
IGST	Integrated Goods and Services Tax
IMFS	Indian Made Foreign Spirits
IPMC	Intellectual Property Management Cell
IR	Inspection Report
IS Act	Indian Stamp Act
ITC	Input Tax Credit
ITDC	Indian Tourism Development Corporation
JC	Joint Commissioner
JC (CS)	Joint Commissioner (Computer Systems)
JRF	Junior Research Fellowship
KVK	Krishi Vigyan Kendra
LC	Level Crossing
LTU	Large Taxpayers Unit
MBRT	Methylene Blue Reduction Test
MCS	Milk Cooperative Societies
MIS	Management Information System
MOU	Memorandum of Understanding
NIRF	National Institution Ranking Framework
NMFP	National Mission on Food Processing
NOC	No Objection Certificate
NRI	Non-Resident Indian
OLRS	Online Licence Renewal System
PAC	Public Accounts Committee
PAN	Permanent Account Number

PCB	Pollution Control Board
PEW	Prohibition Enforcement Wing
PF	Privilege Fee
PG	Postgraduate
Ph.D	Doctor of Philosophy
PID	Provisional Identification
PSC	Project Scrutinising Committee
PTC	Project Technical Committee
PWD	Public Works Department
RO	Registering Officer
ROB	Road Over Bridge
RR Act	Revenue Recovery Act
ROSL	Rebate On State Levies
RUB	Road Under Bridge
SD	Security Deposit
SEZ	Special Economic Zone
SG&SWRDC	State Ground and Surface Water Resources Data Centre
SGST	State Goods and Services Tax
SLEC	State Level Empowered Committee
SR	Sub Registrar
TASMAC	Tamil Nadu State Marketing Corporation Ltd
TDS	Transfer Duty Surcharge
TNAU	Tamil Nadu Agricultural University
TNBP	Tamil Nadu Building Practice
TNGST	Tamil Nadu Goods and Services Tax
TNPCB	Tamil Nadu Pollution Control Board
TNVAT	Tamil Nadu Value Added Tax
UC	Utilisation Certificate
UG	Undergraduate
VAT	Value Added Tax
WSF	Water Soluble Fertiliser

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