

# Chapter I

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## Overview

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## 1.1 About this Report

This Report contains significant findings of audit of receipts of major revenue earning Departments of Government of Telangana. Audit has been conducted under the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971.

The Report contains 33 compliance audit paragraphs with a tax effect of ₹321.98 crore. Compliance audit is an independent assessment of whether a given subject matter (an activity, financial or non-financial transaction, information in respect of an entity or a group of entities) complies in all material respects with applicable laws, rules, regulations, established codes *etc.*, and the general principles governing sound public financial management and the conduct of public officials.

The primary purpose of this Report is to bring to the notice of the State Legislature, significant results of audit. The findings of audit are expected to enable the Executive to take corrective action, to frame appropriate policies as well as to issue directives that will lead to improved financial management of organisations and contribute to better governance.

The audit observations in this Report are based on the results of a test check of the records made available to audit by the concerned Government departments. There may be similar irregularities, errors/omissions in other units of these departments but not covered in the test audit. Departments may, therefore, examine all the units to ensure that the taxes are assessed, levied, collected and accounted for, as per the provisions of the related Acts and Rules.

This Chapter presents an overview of the revenue receipts of the Government of Telangana during the year 2018-19, analyses the trend of receipts over the five-year period 2014-15 to 2018-19, and details the arrears of tax revenue pending collection as of 31 March 2019. Further, Audit approach to examination of revenue receipts of the State is outlined and the response of the State Government to audit findings is also discussed.

## 1.2 Trend of Revenue Receipts

A summary of the revenue realised (tax and non-tax revenue, the State’s share of net proceeds of divisible Union taxes and duties assigned to it, Grants-in-aid received from the Government of India (GoI) during the year 2018-19 and the corresponding figures for the preceding four years) of Government of Telangana is given in **Table-1.1**.

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

(₹ in crore)						
Sl. No.	Particulars	2 June 2014 to 31 March 2015	2015-16	2016-17	2017-18	2018-19
<b>1</b>	<b>Revenue raised by the State Government</b>					
	Tax Revenue	29,288.30	39,974.63	48,407.73	56,519.81	64,674.06
	Non-tax Revenue	6,446.82	14,414.36	9,781.70	7,825.40	10,007.42
	<b>Total</b>	<b>35,735.12</b>	<b>54,388.99</b>	<b>58,189.43</b>	<b>64,345.21</b>	<b>74,681.48</b>
<b>2</b>	<b>Receipts from the Government of India</b>					
	Share of net proceeds of divisible Union taxes and duties	8,188.58	12,350.72	14,877.04	16,420.08	18,560.88
	Grants-in-Aid	7,118.10	9,394.12	9,751.90	8,058.80	8,177.79
	<b>Total</b>	<b>15,306.68</b>	<b>21,744.84</b>	<b>24,628.94</b>	<b>24,478.88</b>	<b>26,738.67</b>

Sl. No.	Particulars	2 June 2014 to 31 March 2015	2015-16	2016-17	2017-18	2018-19
3	Total revenue receipts of State Government (1 + 2)	51,041.80	76,133.83	82,818.37	88,824.09	1,01,420.15
4	Percentage of 1 to 3	70	71	70	72	74

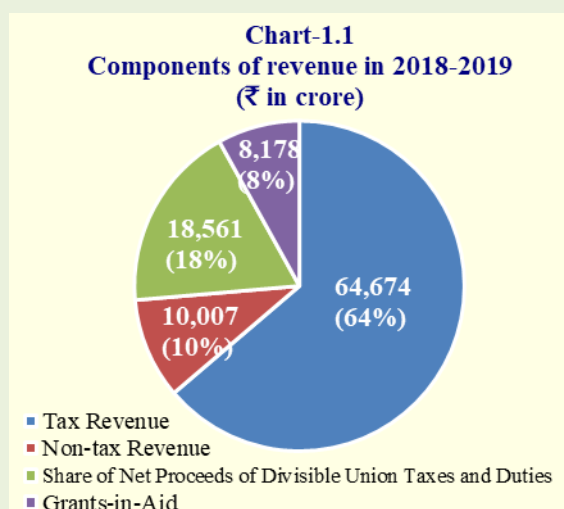
Source: Finance Accounts of Government of Telangana for relevant years

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

As can be seen from the Table above, the tax revenue raised by the State has displayed a healthy increase during the five-year period 2014-19 (increased by 36 per cent in 2015-16; 21 per cent in 2016-17; 17 per cent in 2017-18 and 14 per cent in 2018-19 respectively).

However, the non-tax revenue showed a mixed trend with a dip during 2016-18, before picking up pace during 2018-19. The percentage of tax and non-tax revenue raised by the State Government to the total revenue of the State has been increasing over the last three years from 70 per cent in 2016-17 to 72 per cent in 2017-18 and 74 per cent in 2018-19.

The nature and composition of revenue receipts of the State during the year 2018-19 are shown in **Chart-1.1**.



### 1.2.1 Tax Revenue

Details of tax revenue raised *vis-à-vis* budget projections during the period 2014-15 to 2018-19 are given in **Table-1.2**.

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

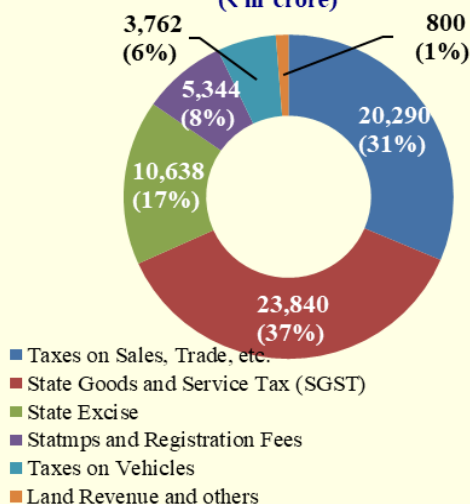
Head of Revenue		Budget Estimates/ Actuals	2 June 2014 to 31 March 2015	2015-16	2016-17	2017-18	2018-19	Percentage of increase (+)/ decrease (-) in 2018-19 over 2017-18
Taxes on Sales, Trade etc.	Budget Estimates		26,963.30	35,463.39	42,073.53	46,500.00	25,942.00	(-) 44.21
	Actuals		22,120.78	29,846.91	34,234.69	25,106.48	20,290.50	(-) 19.18
State Goods and Service Tax (SGST)	Budget Estimates		-	-	-	-	26,040.00	*
	Actuals		-	-	-	13,072.91	23,840.18	(+) 82.36
State Excise	Budget Estimates		2,823.54	3,916.43	4,543.06	9,000.00	10,600.00	(+) 17.78
	Actuals		2,807.69	3,809.07	5,580.71	9,421.33	10,637.56	(+) 12.91
Stamps and Registration Fees	Budget Estimates		2,583.88	3,700.00	4,292.00	3,000.00	4,700.00	(+) 56.67
	Actuals		2,176.90	3,102.23	3,821.66	4,202.46	5,344.04	(+) 27.16

Head of Revenue	Budget Estimates/ Actuals	2 June 2014 to 31 March 2015	2015-16	2016-17	2017-18	2018-19	Percentage of increase (+)/ decrease (-) in 2018-19 over 2017-18
<b>Taxes on Vehicles</b>	Budget Estimates	2,226.86	2,500.00	2,900.00	3,000.00	3,950.00	(+) 31.67
	Actuals	1,617.66	2,309.13	3,394.16	3,589.48	3,761.94	(+) 4.80
<b>Land Revenue</b>	Budget Estimates	72.89	13.46	15.61	15.00	4.64	(-) 69.07
	Actuals	9.25	103.71	6.70	4.12	0.42	(-) 89.81
<b>Others<sup>1</sup></b>	Budget Estimates	10,457.13	901.46	1,045.71	1,104.00	1,015.24	(-) 8.04
	Actuals	556.02	803.58	1,369.81	1,123.03	799.42	(-) 28.82
<b>Total</b>	<b>Budget Estimates</b>	<b>45,127.60</b>	<b>46,494.74</b>	<b>54,869.91</b>	<b>62,619.00</b>	<b>72,251.88</b>	<b>(+) 15.38</b>
	<b>Actuals</b>	<b>29,288.30</b>	<b>39,974.63</b>	<b>48,407.73</b>	<b>56,519.81</b>	<b>64,674.06</b>	<b>(+) 14.43</b>

\*GST implemented from July 1, 2017 and no Budget Estimate given. Hence, comparison does not arise  
**Source:** Budget Estimates and Finance Accounts of Government of Telangana for relevant years

Receipts under Sales tax and SGST have not matched the expectations projected by the State Government in its Budget in any year during the four-year period 2015-19. Same is the case with Land revenue, which exceeded budgetary projections during 2015-16 but lagged behind during the following three years. State Excise revenue exceeded budgetary projections during the last three years and so did Stamps and Registration Fees during the period 2017-18 and 2018-19.

**Chart 1.2: Tax Revenue Components 2018-19**  
(₹ in crore)



The break-up of tax revenue for the year 2018-19 is shown in **Chart-1.2**.

Tax revenue accounted for 64 *per cent* (₹64,674.06 crore) of the total revenue (₹1,01,420.15 crore) of the State during the year 2018-19.

There has been a net increase of 14 *per cent* in tax revenue during the year 2018-19 over the previous year. While the revenue under the heads VAT, Taxes on vehicles, Stamps and Registration Fees and State Excise, had increased, receipts under Land Revenue and Others had decreased.

Increase in tax revenue during 2018-19 over the previous year was mainly due to higher receipts under Input Tax Credit cross utilisation of State Goods and Services Tax (SGST), advance apportionment from IGST *etc.* (82.36 *per cent*), increase in receipts from Taxes on Vehicles (4.80 *per cent*), increased receipts from sale of foreign liquors and spirits and malt liquor under State Excise (12.91 *per cent*) and higher collection of duty on impressing of documents and sale of stamps under Stamp Duty and Registration

<sup>1</sup> Others include - Other taxes on income & expenditure; estate duty; taxes on immovable property other than agricultural land; taxes on goods and passengers; taxes and duties on electricity; Other taxes and duties on commodities and services.

Fees (27.16 per cent) respectively. Reasons for decrease in revenue under Land Revenue and Others were not furnished by the departments (October 2020).

### 1.2.2 Non-Tax Revenue

Details of non-tax revenue raised during the period 2014-2015 to 2018-19 are indicated in Table-1.3.

**Table-1.3: Details of Non-Tax Revenue raised**

(₹ in crore)

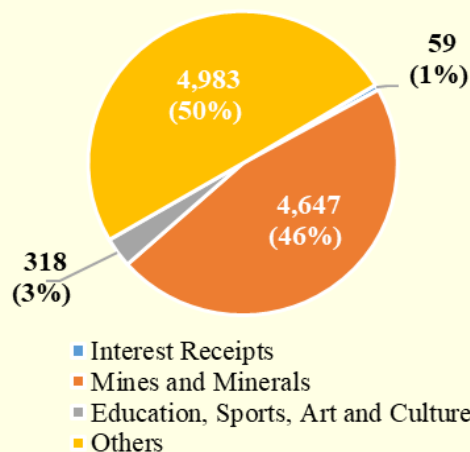
Head of Revenue	Budget Estimates/ Actuals	2 June 2014 to 31 March 2015	2015-16	2016-17	2017-18	2018-19	Percentage of increase (+)/ decrease (-) in 2018-19 over 2017-18
Interest Receipts	Budget Estimates	2,638.20	2,793.95	1,701.01	80.92	186.62	(+)130.62
	Actuals	2,766.01	2,877.54	1,790.82	115.85	59.51	(-) 48.63
Mines and Minerals	Budget Estimates	1,877.52	3,300.00	2,687.87	3,500.00	4,060.03	(+) 16.00
	Actuals	1,719.29	2,212.51	3,148.40	3,592.52	4,646.94	(+) 29.35
Education, Sports, Art and Culture	Budget Estimates	826.72	841.72	400.75	1,150.75	578.72	(-) 49.71
	Actuals	411.57	184.00	768.33	336.05	317.74	(-) 5.45
Others	Budget Estimates	7,899.58	15,477.60	12,752.69	1,869.70	4,148.55	(+)121.88
	Actuals	1,549.95	9,140.31	4,074.15	3,780.98	4,983.23	(+) 31.80
Total	Budget Estimates	13,242.02	22,413.27	17,542.32	6,601.37	8,973.92	(+) 35.94
	Actuals	6,446.82	14,414.36	9,781.70	7,825.40	10,007.42	(+) 27.88

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

The break-up of non-tax revenue for the year 2018-19 is shown in Chart-1.3.

Non-tax revenue increased by 28 per cent during the year 2018-19 over the previous year and accounted for ten per cent (₹10,007.42 crore) of the total revenue (₹1,01,420.15 crore) of the State during the year 2018-19. The increase was mainly due to increase in receipts from Mines and Minerals<sup>2</sup> (29 per cent).

**Chart-1.3: Non-tax Revenue Components 2018-2019 (₹ in crore)**



### 1.3 Authority for audit

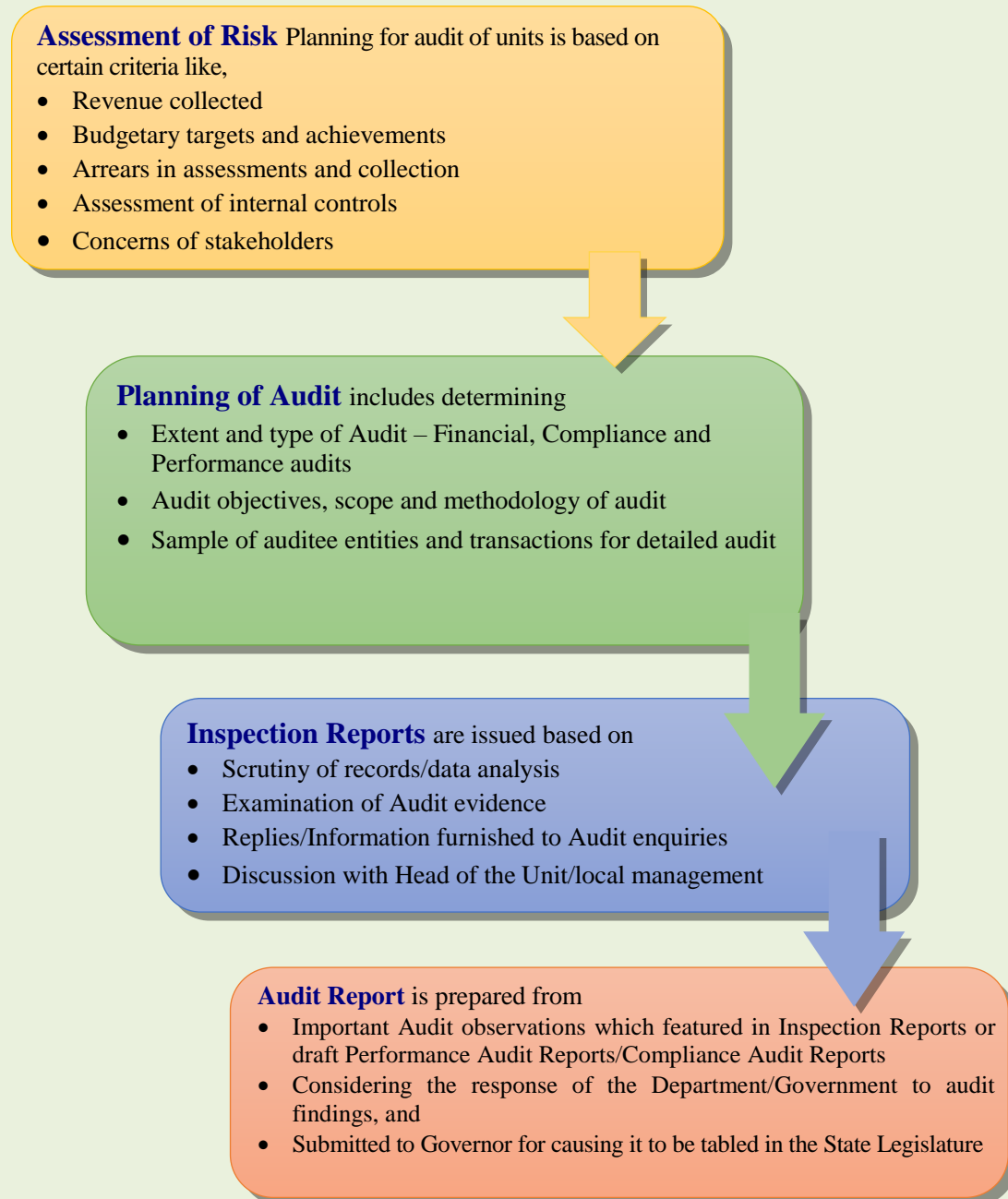
The Comptroller and Auditor General of India (CAG) derives authority for audit from Articles 149 and 151 of the Constitution of India and CAG's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act). CAG audits receipts of the Government under Section 16 of the DPC Act.

<sup>2</sup> Increase in receipt was due to higher receipts towards (i) Mineral concession Fees, Rents and Royalties and other receipts (ii) Sale of land and property, Guarantee Fee and other receipts.

## 1.4 Planning and Conduct of audit

The following flowchart depicts the process of planning and conduct of audit and preparation of Audit Reports:

**Figure-1.1: Planning, conduct of audit and preparation of Audit Reports**



After completion of audit of each unit, an Inspection Report (IR) containing audit findings is issued to the Head of the Unit with a request to furnish replies within one month of receipt of the IR. Whenever replies are received, audit findings are either settled or further action for compliance is advised. Significant audit observations pointed out in these IRs, which require attention at the highest level in Government, are processed for inclusion in the Audit Reports. These Audit Reports are submitted to the Governor of Telangana under Article 151 of the Constitution of India for causing them to be laid on the Table of State Legislature.

During the year 2018-19, audit of 335 units out of total 1,270 auditable units under eight Departments<sup>3</sup> was planned and a total of 332 units were audited.

## 1.5 Analysis of Arrears of Revenue

As of 31 March 2019, the arrears of revenue were ₹13,011.35 crore from some principal heads of revenue like Taxes on Sales, Trade, etc., State Excise, Stamps & Registration Fees, Taxes on Vehicles and Non-ferrous Mining and Metallurgical industries and taxes and duties on Electricity. Of this, ₹5,666.60 crore was outstanding for more than five years as detailed in **Table-1.4**.

**Table-1.4: Arrears of revenue**

(₹in crore)

Head of Revenue	Details of amount outstanding as on 31 March 2019		Reasons
	Total	For more than five years (percent)	
MH 0040 - Tax on Sales, Trade etc.	9,201.76	3,496.70 (38)	Department stated that efforts were being made for collecting the outstanding balances.
MH 0043 - Taxes and Duties on Electricity	2,638.57	1,851.79 (70)	Department stated that arrears of revenue involving ₹190.55 crore is covered by court case in respect of Other Licensees & Generating Companies and that, Demand notices were issued to five companies <sup>4</sup> for an amount involving ₹2,346.18 crore. Specific reasons for short payment by DISCOMs of ₹100.89 crore were not furnished.
MH 0030 - Stamps and Registration Fees	593.44	116.60 (20)	Department stated that parties did not turn up to pay the deficit in spite of repeated notices and efforts were being made to collect the dues under Section 48 of Indian Stamp Act, 1899.
MH 0853 - Non-ferrous Mining and Metallurgical Industries	153.83	91.91 (60)	Department stated that arrears were due to non-working of quarry leases, delay in disposal of revisions, appeals and court cases, most of the cases are old, cases to be referred under RR Act and present addresses of the defaulters are not known, etc. Notices were issued to the defaulters.
MH 0041 – Taxes on Vehicles	382.47	68.50 (18)	Department stated that whereabouts of the registered owner of the vehicles were not known. Notices have been issued for cancellation of Registration Certificates under section 55 of The Motor Vehicles Act, 1988.
MH 0039 – State Excise	41.28	41.10 (100)	Department did not furnish reasons for accumulation of huge arrears.
<b>Total</b>	<b>13,011.35</b>	<b>5,666.60 (44)</b>	

*Source: Information furnished by the Departments*

<sup>3</sup> Commercial Tax, Prohibition and Excise, Land Revenue, Transport, Stamps and Registration Fee, Endowments, Industries and Commerce and Energy.

<sup>4</sup> M/s Singareni Collieries Company Ltd.- ₹21.66 crore, Sanghi Group of Industries - ₹2.70 crore, M/s Sanjay Rural Electric Co-operative Society - ₹0.02 crore, AP Gas Power Corporation Ltd. - ₹138.31 crore, M/s AP Genco - ₹2,183.48 crore.



As can be seen from Table-1.4, recovery of ₹5,666.60 crore was pending for more than five years. This constituted 44 *per cent* of the total revenue realisable, which indicates inaction by the departments concerned to act timely on huge arrears. Land Revenue Department did not furnish the information on arrears of revenue.

**The departments need to review the status of recovery of arrears of revenue on a regular basis and monitor the progress of collection.**

## 1.6 Evasion of tax

The number of cases of tax evasion pending finalisation as on 31 March 2019 was 383 from Commercial Taxes and Registration and Stamps Departments as detailed in **Table-1.5**.

**Table-1.5: Pending finalisation of cases of Evasion of Tax**

Sl. No.	Name of tax/duty	Cases pending as on 31 March 2018	Cases detected during 2018-19	Total	No. of cases in which assessments/ investigations completed and additional demand including penalty etc., raised			No. of cases pending finalisation as on 31 March 2019	
					No. of Cases	Amount of demand (₹in crore)			
						Tax	Penalty		Total
1	Taxes on Sales, Trade etc.	79	753	832	495	257.28	7.29	264.57	337
2	Stamps and Registration Fees	1,200	62	1,262	1,216	3.99	0.47	4.46	46

*Source: Information furnished by the concerned Departments*

It can be seen from Table-1.5 that out of 2,094 cases of tax evasion, 1,711 cases (82 *per cent*) were finalised, leaving a balance of 383 cases (18 *per cent*) pending finalisation during 2018-19. While a demand of ₹269.03 crore was raised against the tax evaders where the cases have been finalised, recovery particulars and the reasons for non-finalisation of balance cases were not furnished to Audit. Prohibition and Excise, Electricity, Transport, Mines & Geology Departments furnished ‘Nil’ information on Evasion of Tax and Land Revenue Department did not furnish any information.

## 1.7 Arrears in assessments

As per the provisions of the Telangana Value Added Tax (VAT) Act<sup>5</sup>, 2005 (VAT Act), every dealer shall be deemed to have been assessed to tax, based on the return filed by him, if no assessment is made within a period of six years from the date of filing the return. Assessments under the Central Sales Tax (CST) Act are to be completed within four years. The details of assessment cases pending as on 31 March, 2019 relating to Commercial Taxes Department are given in **Table-1.6**.

<sup>5</sup> Consequent on bifurcation of combined State of Andhra Pradesh w.e.f. 2 June 2014, Andhra Pradesh VAT Act, 2005 was adopted by Telangana State vide G.O. Ms. No. 32 Revenue (CT-II) Department, dated 15 October 2014.

**Table-1.6: Arrears in Assessments**

Category of Tax	Opening Balance	New cases due for assessment during 2018-2019	Total assessments due	Cases disposed during 2018-2019	Balance as of 31 March 2019	Percentage of disposal
CST	56,584	12,555	69,139	23,517	45,622	34
VAT	7,456	4,210	11,666	2,936	8,730	25
Luxury Tax	122	55	177	61	116	34
<b>Total</b>	<b>64,162</b>	<b>16,820</b>	<b>80,982</b>	<b>26,514</b>	<b>54,468</b>	<b>33</b>

*Source: Information furnished by the Department*

The disposal of assessments by the Commercial Taxes Department was only 33 per cent of total assessments during 2018-19. With the introduction of GST, the clearance of this backlog of legacy assessments would need to be prioritised and expedited.

Further, the closing balances of previous year relating to arrears in assessment of CST (26,815) VAT (3,481) and luxury tax (9) do not match with the opening balances of current year. The Department could not explain the reason for variation in the two sets of balances (September 2020).

## 1.8 Pendency of refund cases

The details of refund cases as on 31 March 2019 are given in **Table-1.7**.

**Table-1.7**

(₹ in crore)

Particulars	Commercial Taxes		Transport		Stamps and Registration Fee	
	No. of Cases	Amount	No. of Cases	Amount	No. of Cases	Amount
Claims outstanding at the beginning of the year as on 1 April 2018	Nil	Nil	Nil	Nil	1,438	11.95
Claims received during the year	206	186.76	101	0.83	1,725	12.32
Total	206	186.76	101	0.83	3,163	24.27
Refunds made during the year	206	186.76	1	@	2,257	16.71
Cases pending as on 31 March 2019	Nil	Nil	100	0.83	906	7.56

@ ₹ 5,850

*Source: Information furnished by the Departments*

A total of ₹203.47 crore was refunded by Commercial Taxes and Registration and Stamps departments. While these two departments could settle 100 per cent and 71 per cent of the refund cases respectively, Transport Department could settle only one case during 2018-19. It needs to initiate appropriate measures expeditiously for speedy disposal of cases, Registration department also needs to speed up the disposal of cases, since it has about 29 per cent pendency.

There were no cases of refunds in respect of Prohibition and Excise, Mines & Geology and Energy Departments. Details of refunds were not furnished by Land Revenue Department (September 2020).

## 1.9 Response of Departments to audit findings

### 1.9.1 Response to previous Inspection Reports

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

A review of IRs issued up to December 2018 pertaining to eight departments<sup>6</sup> showed that 10,254 paragraphs relating to 1,191 IRs valuing ₹4,640.15 crore were outstanding at the end of June 2019 (*Appendix 1.1*). Even first replies from the Heads of offices which was to be furnished within one month have not been received in respect of 290 IRs issued during 2018-19.

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

### Recommendation

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

### 1.9.2 Response of Government to audit observations

All Departments are required<sup>7</sup> to send their responses to draft audit paragraphs proposed for inclusion in CAG's Report within six weeks of their receipt. During the year 2019-20, 54 draft compliance audit paragraphs were forwarded to the Special Chief Secretaries/ Principal Secretaries/Secretaries of the Departments<sup>8</sup> concerned, drawing their attention to the audit findings and requesting them to send their response within six weeks. It was brought to their personal attention that these paragraphs were likely to be included in the Audit Report of the CAG of India, which would be placed before the State Legislature and it would be desirable to include their comments/responses to the audit findings.

Despite this, the Departments concerned did not furnish replies to the draft compliance audit paragraphs as on the date of finalisation of this Report. The fact of non-receipt of Government responses was also brought to the notice of the Chief Secretary to the Government in June 2020.

<sup>6</sup> Commercial Tax, Prohibition and Excise, Land Revenue, Transport, Registration & Stamps, Energy, Industries and Commerce and Endowments.

<sup>7</sup> as per paragraph 4.7 of Finance Department's Handbook of Instructions.

<sup>8</sup> Commercial Taxes, State Excise, Registration and Stamps, Transport, Land Revenue and Industries and Commerce (Mines and Minerals).

### **1.9.3 Response of Government to audit paragraphs that featured in earlier Audit Reports**

Administrative Departments are required to submit Explanatory Notes on paragraphs and reviews included in Audit Reports<sup>9</sup>, within three months of their presentation to State Legislature duly indicating action taken or proposed to be taken.

Reports of the CAG on Revenue Sector of the Government of Andhra Pradesh for the years from 2012 to 2014 and Government of Telangana for the years from 2014 to 2017 contained 170 paragraphs (including six Performance Audits). These Audit Reports were placed before the State Legislative Assembly between November 2014 and March 2018. Of these, 118 paragraphs pertain exclusively to Telangana and 52 paragraphs (including three Performance Audits) were common to both Telangana and Andhra Pradesh States. Explanatory notes in respect of 164 paragraphs from eight Departments<sup>10</sup> have not been received (September 2020).

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

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

Action Taken Notes on 113 recommendations relating to Audit Reports (Revenue Sector) were due as of September 2020. Of these, 11 recommendations pertain to Telangana State and 102 pertain to combined State of Andhra Pradesh and Telangana.

### **1.9.5 Departmental Audit Committee Meetings**

The Government has to set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2018-19, no Audit Committee meetings were held by departments.

#### **Recommendation**

**Government needs to set up Audit Committees expeditiously to enable discussion of pending IRs and Paragraphs and address the issues of non-compliance with relevant Acts, pointed out in these IRs/Paragraphs.**

### **1.9.6 Constraints in Audit**

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

<sup>9</sup> as per instructions issued by Finance and Planning Department vide U.O. No.23810-c/200/PAC/93-2 dated 3 November 1993.

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

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

During the period 2018-19, 89 offices pertaining to six departments<sup>12</sup> did not produce crucial records like Annual Accounts of dealers, Assessment Files, Licence files of A-4 shops and related records, Cash Book, Demand Collection and Balance Register, Challan remittance register and reconciliation statement, etc. Where the records were made available, under assessment/short levy/loss of revenue aggregating ₹671.48 crore in 1,924 cases pertaining to 332 test checked units of seven departments<sup>13</sup> was observed. Departments accepted observations pertaining to 2018-2019 and previous years of ₹102.61 crore in 366 cases<sup>14</sup> and recovered ₹0.54 crore<sup>15</sup> in 73 cases (October 2020).

Non-production of records hinders efficacy of audit and results in inability to verify accuracy of revenue collections and expenditure.

### Recommendation

**Government needs to issue suitable instructions to the Heads of the Departments concerned for timely production of all the relevant records for audit scrutiny.**

### 1.9.7 Analysis of the mechanism for dealing with the issues raised by Audit in Transport Department

The system for addressing the issues highlighted in the IRs/Audit Reports in respect of one department is reviewed in audit every year. During the year 2018-19, action initiated by Transport Department was reviewed to assess the action taken on the cases detected in local audit during 2015-16<sup>16</sup> to 2018-19 and Compliance Audit Paragraphs/ Performance Audit Reports included in the Audit Reports for the years 2013-14 to 2017-18.

The overall performance of the Department in clearance of IRs and action taken on recommendations of Audit is given in **Table 1.8**.

**Table-1.8: Position of Inspection Reports (IRs)**

Year	Opening Balance			Addition during the year			Clearance during the year			Closing Balance		
	IRs	Paras	Money Value (₹in crore)	IRs	Paras	Money Value (₹in crore)	IRs	Paras	Money Value (₹in crore)	IRs	Paras	Money Value (₹in crore)
2015-16	242	1,558	2,289.34	16	148	14.12	49	788	620.27	209	918	1,683.19
2016-17	209	918	1,683.19	8	144	110.07	6	31	0.18	211	1,031	1,793.08
2017-18	211	1,031	1,793.08	8	165	21.83	34	263	103.44	185	933	1,711.47
2018-19	185	933	1,711.47	30	371	30.82	154	491	1,669.07	61	813	73.22

*Source: Records of Office of Accountant General (Audit), Telangana*

The above position indicates the overall performance of the Department in clearance of IRs and paragraphs. As against 242 outstanding IRs with 1,558 paragraphs at the beginning of 2015-16, the number of outstanding IRs decreased to 61 with 813 paragraphs at the end of 2018-19.

<sup>12</sup> Commercial Tax, Prohibition and Excise, Registration & stamps, Land Revenue, Transport, Mines and Geology.

<sup>13</sup> Endowment, Prohibition and Excise, Industries and Commerce, Land Revenue, Registration and Stamps, Commercial Tax and Transport.

<sup>14</sup> Of which 200 cases involving ₹ 55.25 crore were pointed out in earlier years.

<sup>15</sup> Of this, recovery of ₹ 0.46 crore in 66 cases related to previous years.

<sup>16</sup> The Telangana State was formed on 2 June 2014.

Two Performance Audits were conducted during 2013-14 and 2016-17 on subjects<sup>17</sup> pertaining to Transport Department and 11 recommendations were issued. Explanatory Notes were not received from the Government in respect of these Performance Audit Reports as of September 2020. Details of recommendations are given in **Appendix-1.2**.

## **1.10 Significant audit observations**

This Report contains 33 compliance audit paragraphs that emerged from a test check of records of six Departments of Government of Telangana with a tax effect of ₹321.98 crore.

Significant results of audit that feature in this Report are summarised below.

### **1.10.1 Value Added Tax, Central Sales Tax and Goods and Services Tax**

- In 8 offices, 11 dealers were incorrectly allowed Input Tax Credit (ITC) of ₹1.27 crore on account of non-restriction of ITC on goods purchased for other than business use, maintenance of building and incorrect claim by hotels, restaurants etc.

*(Paragraph 2.3.1)*

- In 15 offices, ITC claimed by 28 dealers was not restricted correctly towards SEZ sales/exempt sale and branch transfers/consignment sales resulting in excess allowance of ITC of ₹4.54 crore.

*(Paragraph 2.3.2)*

- In 12 offices, 15 dealers reported excess purchase turnover in their VAT returns than that shown in their Profit and Loss Accounts and the Assessing Authorities did not cross check the accounts and adopted the figures reported in the returns to allow ITC. This resulted in excess allowance of ITC of Rupees four crore.

*(Paragraph 2.3.3)*

- In 15 offices, in respect of 29 dealers, Tax was short levied at the rate of four or five *per cent* instead of 14.5 *per cent* on sale of Schedule-V goods and dealers doing business in restaurant, canteen and bakery. This resulted in short levy of Tax of ₹ 32.78 crore.

*(Paragraph 2.4.1)*

- In 12 offices, in respect of 18 dealers, Tax was short levied at the rate of five *per cent* instead of 14.5 *per cent* on sale of Mobile phones. This resulted in short levy of Tax of ₹43.89 crore.

*(Paragraph 2.4.2)*

- In 11 offices, Tax was short levied at the rate of five *per cent* instead of 14.5 *per cent* for non-submission of 'C' Forms towards inter-State sale of Schedule-V goods in 31 cases. Further, in five cases, no tax was levied treating the commodities as exempt goods, though they were taxable goods. This resulted in non/short levy of tax of ₹9.54 crore.

*(Paragraph 2.5.1)*

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<sup>17</sup> Performance Audit on 'Enforcement activities of Transport Department including implementation of High Security Registration Plates' (AR 2016-17) and 'Public service delivery including functioning of IT services (CFST) in Transport Department (AR 2013-14).

- In eight offices, in 16 cases, the AAs allowed exemption on transactions not supported by proper documents and did not collect tax on sale of intangible goods. This resulted in non-levy of tax of ₹41.32 crore.

*(Paragraph 2.5.2)*

- In 43 offices, in 95 cases, there were variations in sales turnover between VAT assessments orders/VAT ledgers/CST assessments orders/ CST ledgers and Profit and Loss accounts. Sale turnover as per accounts was more than the sale turnover as assessed in VAT/ CST assessments orders/ VAT/ CST ledgers. This resulted in non/short levy of Tax of ₹73.56 crore.

*(Paragraph 2.6)*

- AAs of five offices under assessed taxable turnover under works contract in five cases. This resulted in short levy of tax of ₹ 3.54 crore.

*(Paragraph 2.7.1.1)*

- In five offices, in eight cases, ITC was not restricted under works contract. This resulted in excess allowance of ITC of ₹ 1.32 crore.

*(Paragraph 2.7.1.2)*

- In 41 offices, in 360 cases, an interest of ₹ 4 .28 crore and penalty of ₹ 6.22 crore were not levied towards belated payment of taxes with delays ranging from one day to 1,224 days beyond the due date of payment.

*(Paragraph 2.8.1)*

- In 25 offices, in 40 cases, penalty was not levied/ short levied on under-declaration of output tax/ excess claim of ITC for reasons other than due to fraud or wilful neglect. This resulted in non-levy/ short levy of penalty of ₹ 5.13 crore.

*(Paragraph 2.8.2)*

- In 14 offices, in 19 cases, the dealers had under-declared tax or claimed excess ITC wilfully. The AAs did not levy penalty in six cases and short levied penalty in 13 cases. This resulted in non-levy or short levy of penalty of ₹ 30.72 crore.

*(Paragraph 2.8.3)*

- In two offices, in two cases, the AAs disallowed ITC due to false tax invoices. However, penalty at 200 *per cent* as specified under the Act was not levied. This resulted in non-levy/ short levy of penalty of ₹ 2.04 crore.

*(Paragraph 2.8.4)*

- In 13 offices, in 40 cases, the dealers who meet the criteria for mandatory registration as VAT dealer did not register themselves or continued as Turnover Tax (TOT) dealer. Failure to get the assesses registered as VAT dealers resulted in short realization of tax, incorrect allowance of ITC and non-levy of penalty of ₹ 98.14 lakh.

*(Paragraph 2.8.5)*

- In one office, in one case, the AA did not levy penalty on the dealer who purchased goods by issuing 'C' Forms and utilised the same for exempt sale. This resulted in non-levy of penalty of ₹ 5.27 crore.

(Paragraph 2.9)

- In two offices, in two cases, the dealers utilised notified goods which were purchased against 'C' form, for the purposes other than re-sale or as inputs in manufacturing process. The dealers did not notify this to jurisdictional authorities. The AAs though levied Entry Tax, did not levy penalty for non-notifying the self-consumption of such goods. This resulted in non-levy of penalty of ₹ 5.56 crore.

(Paragraph 2.10)

- In four offices, in 33 cases, the dealers claimed transitional credit in excess of the closing balance of ITC available in their last VAT return of June-2017. This resulted in excess claim of transitional credit of ₹ 1.27 crore.

(Paragraph 2.12.2.2)

### 1.10.2 State Excise Duties

- In one office, excise tax to the tune of ₹2.70 crore was short levied from shops and bar located within the periphery of Greater Hyderabad Municipal Corporation.

(Paragraph 3.3)

### 1.10.3 Stamp Duty and Registration Fee

- Companies secured credit facilities from various financial institutions by creating charge on *paripassu* basis on their properties. In two offices, Registering Authorities collected ₹ 10,000 on each document instead of charging Registration fee at 0.5 *per cent* on the loan amount which resulted in short collection of Registration Fee of ₹ 4.85 crore.

(Paragraph 4.3)

- In 14 offices, District Registrars/ Sub-Registrars short levied duties and fees due to misclassification of transactions which resulted in short levy of duties and fees amounting to ₹ 1.67 crore.

(Paragraph 4.4)

- In 13 offices, District Registrars/ Sub-Registrars adopted lesser rate applicable to Agricultural lands in respect of lands which had already been converted to non-agricultural use. This led to short levy of duties and fee of ₹ 1.27 crore.

(Paragraph 4.5)

### 1.10.4 Motor Vehicle Taxes

- Non-raising of demands led to non-realisation of Quarterly tax of ₹ 8.31 crore and non-levy of penalty of ₹ 4.15 crore from owners of 7,393 transport vehicles in 33 offices.

(Paragraph 5.3)



- In 34 offices, Fitness Certificates (FCs) of 1,52,280 transport vehicles were not renewed resulting in non-realisation of FC fees of ₹ 9.30 crore.

*(Paragraph 5.4)*

- In 13 offices, Registration Certificates of 69,473 vehicles were not renewed after expiry of validity period. This resulted in non-realisation of renewal fee of ₹ 3.28 crore.

*(Paragraph 5.5)*

- In 20 offices, Compounding Fees (CF) for the offences under transport laws was not collected in 1,659 cases, resulting in non-realisation of CF of ₹ 1.52 crore.

*(Paragraph 5.6)*

### **1.10.5 Land Revenue**

- In 19 offices, Revenue Divisional Offices/Tahsildars short levied conversion tax in 45 cases due to adoption of incorrect market value of the land and penalty was not levied on deemed conversion of land which resulted in short levy of conversion tax and non-levy of penalty amounting to ₹1.39 crore.

*(Paragraph 6.3)*

### **1.10.6 Other Tax and Non-Tax Receipts**

- In 15 out of 16 Assistant Director's (AD) offices, Mineral Concession Applications were pending disposal for want of NOC from revenue authorities.

*(Paragraph 7.3.3.1)*

- Delay in approval of Mineral Revenue Assessments by the Deputy Directors ranged between five to 29 months.

*(Paragraph 7.3.3.2)*

- Delay in submission of Demand Collection Balance (DCB) Registers by the Assistant Directors ranged between 26 to 630 days. Further, DCB Registers in respect of coal mining leases held by M/s Singareni Collieries Company Limited for the period from 2011-12 to 2018-19 were not prepared.

*(Paragraph 7.3.3.3)*

- Mineral Revenue Arrears of ₹120.53 crore was due from lease holders. Also, Mineral Revenue Arrears of ₹224.55 crore remained uncollected in cases detected by Vigilance & Enforcement, ₹155.01 crore by Departmental Authorities and ₹94.27 crore referred under Revenue Recovery Act 1864 as of March 2019.

*(Paragraphs 7.3.4.1 & 7.3.4.2)*

