

## CHAPTER I

### GENERAL

#### 1.1 Trend of revenue receipts

**1.1.1** The tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2009-10, 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 as mentioned below:

(₹ in crore)						
Sl. No.	Particulars	2005-06	2006-07	2007-08	2008-09	2009-10
<b>1.</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	23,326.03	27,771.15	29,619.10	33,684.37	36,546.66
	• Non-tax revenue	2,600.75	3,422.57	3,304.37	5,712.33	5,027.05
	<b>Total</b>	<b>25,926.78</b>	<b>31,193.72</b>	<b>32,923.47</b>	<b>39,396.70</b>	<b>41,573.71</b>
<b>2.</b>	<b>Receipts from the Government of India</b>					
	• State's share of divisible Union taxes	5,012.74	6,393.86	8,065.27	8,510.80	8,756.20 <sup>1</sup>
	• Grants-in-aid	3,020.47	3,325.65	6,531.77	7,135.01	5,514.22
	<b>Total</b>	<b>8,033.21</b>	<b>9,719.51</b>	<b>14,597.04</b>	<b>15,645.81</b>	<b>14,270.42</b>
<b>3.</b>	<b>Total receipts of the State Government (1 + 2)</b>	33,959.99	40,913.23	47,520.51	55,042.51	55,844.13
<b>4.</b>	<b>Percentage of 1 to 3</b>	<b>76</b>	<b>76</b>	<b>69</b>	<b>72</b>	<b>74</b>

The above table indicates that during the year 2009-10, the revenue raised by the State Government (₹ 41,573.71 crore) was 74 per cent of the total revenue receipts against 72 per cent in the preceding year. The balance 26 per cent of the receipts during 2009-10 was from the Government of India.

<sup>1</sup> For details please see Statement No. 11 – Detailed accounts of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2009-10. Figures under the head '0021 – Taxes on income other than corporation tax – Share of net proceeds assigned to states' booked in the Finance Accounts under 'A – Tax revenue' have been excluded from the revenue raised by the state and included in 'State's share of divisible Union taxes' in this statement.

**1.1.2** The following table presents the details of tax revenue raised during the period from 2005-06 to 2009-10:

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+)/ decrease (-) in 2009-10 over 2008-09
1.	Sales tax	15,554.69	17,727.16	18,156.36	20,674.70	22,661.52	(+) 9.61
2.	State excise	3,176.65	3,986.42	4,764.06	5,755.52	6,740.68	(+) 17.12
3.	Stamp duty and registration fees						
	Stamps – judicial	63.83	68.79	76.87	79.58	78.63	(-) 1.19
	Stamps – non-judicial	1,677.01	2,442.89	3,124.92	3,127.28	3,019.98	(-) 3.43
	Registration fees	344.02	485.78	602.95	586.82	563.55	(-) 3.97
4.	Taxes on vehicles	1,124.93	1,260.88	1,483.21	1,709.57	2,024.64	(+) 18.43
5.	Land revenue	179.48	120.68	78.03	207.73	116.66	(-) 43.84
6.	Taxes on immovable property other than agricultural land (urban land tax)	11.86	14.45	15.75	11.79	12.01	(+) 1.87
7.	Others	1,193.56	1,664.10	1,316.95	1,531.38	1,328.99	(-) 13.22
	<b>Total</b>	<b>23,326.03</b>	<b>27,771.15</b>	<b>29,619.10</b>	<b>33,684.37</b>	<b>36,546.66</b>	<b>(+) 8.5</b>

The following reasons for variation were reported by the concerned departments:

**State excise:** The increase of revenue was due to increase in the sale of Indian Made Foreign Spirits and beer.

**Taxes on vehicles:** The increase of revenue was due to introduction of road safety tax in 2009-10.

**Land revenue:** The decrease of revenue was mainly due to elimination of local cess and local cess surcharge and other levies from fasli 1419 (2009-10).

The other departments did not furnish (December 2010) the reasons for variation despite being requested (July 2010).

**1.1.3** The following table presents the details of non-tax revenue raised during the period from 2005-06 to 2009-10:

(₹ in crore)

Sl. No.	Head of revenue	2005-06	2006-07	2007-08	2008-09	2009-10	Percentage of increase (+) / decrease (-) in 2009-10 over 2008-09
1.	Interest receipts, dividends and profits	819.91	1,134.00	1,282.20	1,501.09	1,845.61	(+) 22.95
2.	Crop husbandry	66.43	74.45	82.41	73.53	92.54	(+) 25.85
3.	Forestry and wild life	138.59	82.31	46.42	82.65	86.90	(+) 5.14
4.	Non-ferrous mining and metallurgical industries	465.68	566.64	581.76	527.36	610.89	(+) 15.84
5.	Education, sports, art and culture	209.98	215.83	301.40	302.74	383.64	(+) 26.72
6.	Other receipts	900.16	1,349.34	1,010.18	3,224.96	2,007.47	(-) 37.75
<b>Total</b>		<b>2,600.75</b>	<b>3,422.57</b>	<b>3,304.37</b>	<b>5,712.33</b>	<b>5,027.05</b>	<b>(-) 12</b>

In respect of non-ferrous mining and metallurgical industries the variation as reported by the Industries department was due to the increased production of minerals which led to collection of more royalty, seigniorage fees, etc.

The other departments did not furnish (December 2010) the reasons for variation despite being requested (July 2010).

## **1.2 Response of the departments/Government towards audit**

### **1.2.1 Failure of the senior officials to enforce accountability and protect the interest of the State Government**

The Principal Accountant General (Commercial & Receipt Audit), Tamil Nadu (PAG) arranges to conduct 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 promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance

through initial replies to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the departments and the Government.

We reviewed the IRs issued upto 31 December 2009 and found that 23,636 paragraphs involving ₹ 3,442.72 crore relating to 7,204 IRs remained outstanding at the end of June 2010 as mentioned below along with the corresponding figures for the preceding two years:

	June 2008	June 2009	June 2010
Number of outstanding IRs	7,271	7,213	7,204
Number of outstanding audit observations	23,624	24,693	23,636
Amount involved (₹ in crore)	2,951.86	3,417.03	3,442.72

The department-wise details of the IRs and audit observations outstanding as on 30 June 2010 and the amounts involved are mentioned below:

Sl. No.	Name of the department	Nature of receipts	Number of outstanding		Money value involved (₹ in crore)
			Inspection reports	Audit observations	
1.	Commercial Taxes and Registration	Sales tax	3,416	15,950	1,186.41
		Stamp duty and registration fees	1,239	2,635	260.32
		Entry tax	164	295	5.82
		Entertainment tax	56	61	2.18
		Luxury tax	110	128	2.28
		Betting tax	12	23	0.09
2.	Revenue	Land revenue	836	1,855	1,301.67
		Urban land tax	260	692	45.17
		Taxes on agricultural income	72	175	81.03
3.	Home (Transport)	Taxes on vehicles	459	841	96.36
4.	Home (Prohibition and Excise)	State excise	207	288	79.05
5.	Industries	Mines and minerals	297	557	342.75
6.	Energy	Electricity duty	76	136	39.59
<b>Total</b>			<b>7,204</b>	<b>23,636</b>	<b>3,442.72</b>

Even the first replies required to be received from the heads of offices within one month from the date of issue of IRs were not received for 137 IRs issued upto December 2009. This large pendency of IRs due to non-receipt of the

replies is indicative of the fact that the heads of offices and heads of the departments did not initiate action to rectify the defects, omissions and irregularities pointed out by us in the IRs.

**We recommend that the Government take suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who did not send replies to the IRs/paragraphs as per the prescribed time schedules and also did not take action to recover the loss/outstanding demand in a time bound manner.**

### 1.2.2 Departmental audit committee meetings

The Government set up audit committees (during various periods) to monitor and expedite the progress of the settlement of the paragraphs in the IRs. The details of the audit committee meetings held during the year 2009-10 and the paragraphs settled are mentioned below:

Head of revenue	Number of meetings held	Number of paragraphs settled	Money value involved (₹ in crore)
Sales tax	29	1,033	4.44
Taxes on vehicles	3	116	5.01
State excise	2	28	15.49
Land revenue	3	67	0.51
<b>Total</b>	<b>37</b>	<b>1,244</b>	<b>25.45</b>

It may be seen from the table that though 37 meetings were conducted and 1,244 paragraphs were settled, the money value involved in these observations was not even one *per cent* of the total money value of the outstanding audit observations. This indicates that final rectificatory action has not been taken in respect of observations involving higher financial implications and thus they remain unresolved.

**We recommend that the Government may suitably instruct the concerned departments to take rectificatory action on all audit observations, particularly those which are pending for a long time.**

### 1.2.3 Non-production of records to audit for scrutiny

We draw up the programme of local audit of commercial tax offices sufficiently in advance and issue intimations, usually one month before the local audit, to the department to enable them to keep the relevant records ready for audit scrutiny.

During 2009-10, 16,702 sales tax assessment records relating to 235 offices were not made available to us for audit. Of these, 253 assessments pertain to six special circles, where assessments of major dealers are dealt with.

The delay in production of records for audit would render audit scrutiny ineffective, as rectification of under-assessments, if any, might become barred by limitation, by the time these files are produced to audit.

We brought the matter regarding non-production of records in each office and arrears in assessment to the notice of the department through the local audit reports of the respective offices.

The non-production of assessment records defeats the accountability of the executive and also hinders the discharge of duties of the Comptroller and Auditor General of India as enshrined in the Constitution.

#### **1.2.4 Response of the departments to draft audit paragraphs**

The Government (Finance Department) issued directions (April 1952) to all departments to send their responses to the draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks from the date of receipt of the draft paragraphs. The draft paragraphs are forwarded to the Secretaries of the concerned departments through demi-official letters, drawing their attention to the audit findings with a request to send their response within six weeks. The fact of non-receipt of replies from the departments is invariably indicated at the end of each such paragraph included in the Audit Report.

We forwarded 43 draft paragraphs (clubbed into 22 paragraphs including one review) proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2010 to the Secretaries of the respective departments during March-September 2010 through demi-official letters. The Secretaries of the departments did not send replies to 31 draft paragraphs. Thus, there was non-compliance to the above mentioned instructions of the Government. Therefore, these paragraphs have been proposed for inclusion in the report without the response of the Secretaries of the departments concerned.

#### **1.2.5 Follow-up 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) had directed that the department concerned should furnish remedial/corrective Action Taken Notes (ATN) on the recommendations of PAC relating to the paragraphs contained in the Audit Reports within the prescribed time frame. We reviewed the outstanding ATNs as of 31 March 2010 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu and found that the departments had not submitted the ATNs for 982 recommendations pertaining to 291 audit paragraphs discussed by PAC. Out of the pending 982 recommendations, ATNs have not been received in respect of 409 recommendations even once, the earliest of which relates to the Audit Report-1986-87.

Further, PAC has also laid down that necessary explanatory notes for those issues mentioned in the Audit Reports should be furnished to the Committee within a maximum period of two months from the date of placing of the Report before the Legislature. Though the Audit Reports for the years from

2000-01 to 2008-09 were placed before the Legislative Assembly between May 2002 and May 2010, the departments are yet to submit explanatory notes for 99 paragraphs (including 13 reviews) included in these reports.

### 1.2.6 Compliance with the earlier Audit Reports

During the period from 2004-05 to 2008-09, the departments/Government accepted audit observations involving ₹ 154.43 crore, of which ₹ 79.04 crore had been recovered till 31 October 2010 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Recovery made
2004-05	576.20	7.39	3.25
2005-06	228.71	5.18	2.26
2006-07	151.38	87.84	64.68
2007-08	408.47	46.49	7.40
2008-09	337.40	7.53	1.45
<b>Total</b>	<b>1,702.16</b>	<b>154.43</b>	<b>79.04</b>

**The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports and take necessary steps for early collection.**

### 1.3 Analysis of the mechanism for dealing with the issues raised by audit

In order 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 reviews included in the Audit Reports of the last five years in respect of one department is evaluated and included in each Audit Report.

Accordingly, the succeeding paragraphs 1.3.1 to 1.3.2.2 discuss the performance of the **Home (Transport) department** to deal with the cases detected in the course of local audit conducted during the last five years and also the cases included in the Audit Reports for the years 2004-05 to 2008-09.

### 1.3.1 Position of inspection reports

The summarised position of IRs issued in respect of the Transport Department during the last five years, paragraphs included in these reports and their status as on 30 September 2010 are tabulated below:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value	IRs	Para-graphs	Money value
2004-05	346	1,046	67.44	45	178	9.60	5	48	0.12	386	1,176	76.92
2005-06	386	1,176	76.92	48	222	8.71	3	64	6.33	431	1,334	79.30
2006-07	431	1,334	79.30	49	232	3.99	24	307	4.97	456	1,259	78.32
2007-08	456	1,259	78.32	41	214	7.37	9	84	1.92	488	1,389	83.77
2008-09	488	1,389	83.77	47	200	7.38	66	281	19.71	469	1,308	71.44

It is seen from the above table that there is no significant reduction in the outstanding IRs as well as paragraphs over the years.

**We recommend that the Government may issue suitable instructions to the department to take appropriate steps to clear the outstanding audit observations at the earliest.**

### 1.3.2 Assurances given by the department/Government on the issues highlighted in the Audit Reports

#### 1.3.2.1 Recovery of accepted cases

The position of paragraphs in respect of the Transport Department included in the Audit Reports of the last five years, those accepted by the department and the amount recovered are mentioned below:

(₹ in lakh)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered
2004-05	2	90.65	2	90.65	4.94
2005-06	0	0.00	0	0.00	0.00
2006-07	2*	30.66	1	30.66	10.98
2007-08	1**	24,000.00	1	361.00	4.00
2008-09	1	36.62	1	36.62	20.01
<b>Total</b>	<b>6</b>	<b>24,157.93</b>	<b>5</b>	<b>518.93</b>	<b>39.93</b>

\* Includes one review on Computerisation of the Transport Department  
 \*\* Relates to review on Receipts from Motor Vehicles Tax



The above table indicates that the overall percentage of recoveries of the accepted cases is less than 10 *per cent* which is very low.

**The Government may institute a mechanism to monitor the position of recoveries pointed out in the Audit Reports.**

### 1.3.2.2 Action taken on the recommendations accepted by the department/Government

The draft performance reviews are forwarded to the concerned department/Government for their information with a request to furnish their replies. These reviews are also discussed in an exit conference and the department's/Government's views are included while finalising the reviews for the Audit Reports.

The following table shows the issues highlighted in the reviews on the Home (Transport) department featured in the last five Audit Reports including the recommendations and action taken by the department on the recommendations accepted by it as well as the Government.

Year of Audit Report	Name of the review	Number of recommendations	Details of the recommendations accepted
AR 2006-07	Computerisation of the Transport Department	4	1
AR 2007-08	Receipts from Motor Vehicles Tax	3	---

## 1.4 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 and other parameters. The annual audit plan is prepared on the basis of risk analysis which, *inter-alia*, include critical issues in Government revenues and tax administration i.e., budget speech, White Paper on state finances, reports of the Finance Commission (State and Central), recommendations of the Taxation Reforms Committee, 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 2009-10, the audit universe comprised 1,377 auditable units, of which 665 units were planned and audited during the year 2009-10 i.e., 48 *per cent* of the total auditable units. The details are shown in the annexure.

Besides the compliance audit mentioned above, a comprehensive review on the Registration Department (Stand Alone Report) and a review on the Computerisation of the Check Posts of Commercial Taxes Department were also taken up during the year.

## **1.5 Results of audit**

### **1.5.1 Position of local audit conducted during the year**

We test checked the records of 388 units<sup>2</sup> of commercial taxes, land revenue, state excise and motor vehicles tax in 2009-10 and found underassessments, short levy, loss of revenue and other observations amounting to ₹ 343.98 crore in 1,406 cases. During the year, the departments accepted underassessments and other deficiencies in 946 cases involving ₹ 14.51 crore of which 364 cases involving ₹ 6.83 crore were pointed out in 2009-10 and the rest in earlier years. The departments collected ₹ 10.95 crore during 2009-10.

### **1.5.2 This Report**

This Report contains 22 paragraphs including one review (information technology) relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving financial effect of ₹ 149.13 crore. The departments/Government accepted audit observations involving ₹ 8.56 crore, of which ₹ 5.07 crore had been recovered/adjusted by the departments. We have not received replies in the remaining cases (December 2010). These are discussed in the succeeding chapters II & III.

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<sup>2</sup> Offices of the Stamp Duty and Registration Fees audited during the year have not been included as they are projected in the Stand Alone Report.