

# ***CHAPTER I***

## ***GENERAL***

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### 1.1 Trend of revenue receipts

1.1.1 The tax and non-tax revenue raised by the Government of Andhra Pradesh during 2011-12, the State's share of divisible Union taxes and grants-in-aid received from the Government of India during the year and the corresponding figures for the preceding four years are mentioned below:

**Table 1.1 - Trend of revenue receipts**

(₹ in crore)						
Sl. No.	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
<b>I</b>	<b>Revenue raised by the State Government</b>					
	• Tax revenue	28,794.05	33,358.29	35,176.68	45,139.55	53,283.41
	• Non-tax revenue	7,064.13	9,683.40	7,802.26	10,719.72	11,694.34
	<b>Total</b>	<b>35,858.18</b>	<b>43,041.69</b>	<b>42,978.94</b>	<b>55,859.27</b>	<b>64,977.75</b>
<b>II</b>	<b>Receipts from the Government of India</b>					
	• State's share of divisible Union taxes	11,183.64	11,801.50	12,141.71	15,236.75	17,751.15
	• Grants-in-aid	7,100.73	8,015.26	9,557.70	9,900.28	10,824.79
	<b>Total</b>	<b>18,284.37</b>	<b>19,816.76</b>	<b>21,699.41</b>	<b>25,137.03</b>	<b>28,575.94</b>
<b>III</b>	<b>Total receipts of the State (I + II)</b>	<b>54,142.55</b>	<b>62,858.45</b>	<b>64,678.35</b>	<b>80,996.30</b>	<b>93,553.69</b>
<b>IV</b>	<b>Percentage of I to III</b>	<b>66</b>	<b>68</b>	<b>66</b>	<b>69</b>	<b>69</b>

(Source: Statement 11 of Finance Accounts of Andhra Pradesh for the relevant years)

The above table indicates that during the year 2011-12, the revenue raised by the State Government was 69 per cent of the total revenue receipts of ₹ 93,553.69 crore. The balance 31 per cent of the receipts during 2011-12 was from the Government of India.

1.1.2 The following table presents the details of tax revenue raised during the period from 2007-08 to 2011-12.

**Table 1.2 - Details of Tax revenue**

(₹ in crore)

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+) /decrease (-) in 2011-12 over 2010-11
1.	Value Added Tax (VAT)	17,593.41	20,596.47	22,278.14	27,443.24	33,251.87	(+) 21.17
	Central sales tax	1,433.08	1,255.19	1,362.07	1,701.61	1,658.14	(-) 2.55
2.	State excise	4,040.69	5,752.61	5,848.59	8,264.67	9,612.36	(+) 16.31
3.	Stamp duty and registration fee	3,086.06	2,930.99	2,638.63	3,833.57	4,385.25	(+) 14.39
4.	Taxes and duties on electricity	195.36	218.54	159.25	285.88	304.95	(+) 6.67
5.	Taxes on vehicles	1,603.80	1,800.62	1,995.30	2,626.75	2,986.41	(+) 13.69
6.	Taxes on goods and passengers	80.29	15.88	10.28	9.48	12.06	(+) 27.22
7.	Other taxes on income and expenditure, tax on professions, trades, callings and employments	355.72	374.46	430.36	490.33	539.90	(+) 10.11
8.	Other taxes and duties on commodities and services	171.00	203.13	170.01	206.28	234.46	(+) 13.66
9.	Land revenue	144.39	130.35	221.56	170.74	140.56	(-) 17.68
10.	Taxes on immovable property other than agricultural land	90.25	80.05	62.49	107.00	157.45	(+) 47.15
	<b>Total</b>	<b>28,794.05</b>	<b>33,358.29</b>	<b>35,176.68</b>	<b>45,139.55</b>	<b>53,283.41</b>	<b>(+) 18.04</b>

(Source: Statement 11 of the Finance Accounts for Andhra Pradesh for the relevant years)

**1.1.3** The following table presents the details of non-tax revenue raised during the period from 2007-08 to 2011-12:

**Table 1.3 - Details of Non-Tax revenue**

(₹ in crore)

Sl. No.	Head of revenue	2007-08	2008-09	2009-10	2010-11	2011-12	Percentage of increase (+)/decrease (-) in 2011-12 over 2010-11
1.	Interest receipts <sup>1</sup>	3,525.34	3,487.40	4,851.52	5,774.29	6,278.82	(+)8.74
2.	Non-ferrous mining and metallurgical industries (mines and minerals)	1,597.56	1,684.98	1,887.26	2,064.86	2,336.74	(+)13.17
3.	Miscellaneous general services	778.64	2,944.06	(-) 617.71	806.97	255.17	(-) 68.38
4.	Police	99.83	105.36	130.09	170.98	246.01	(+)43.87
5.	Forestry and wild life	90.92	93.22	103.11	139.06	149.22	(+)7.31
6.	Other non-tax receipts	971.84	1368.38	1447.98	1763.56	2428.38	(+) 37.70
	<b>Total</b>	<b>7,064.13</b>	<b>9,683.40</b>	<b>7,802.26</b>	<b>10,719.72</b>	<b>11,694.34</b>	<b>(+) 9.09</b>

(Source: Statement 11 of the Finance Accounts for Andhra Pradesh for the relevant years)

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

The Principal Accountant General (PAG) conducts test check of the transactions of Government Departments and communicates the audit observations through Inspection Reports (IRs). The Heads of offices report compliance to the observations in IRs within one month from the date of issue of IRs.

The paragraphs remaining unsettled are expedited by the audit committees set up for the purpose. Serious audit observations converted as draft paragraphs proposed for inclusion in the Audit Report are communicated to the Department/Government. The Government is required to furnish the replies to such draft paragraphs within six weeks of their issue. Departmental explanatory notes to the paragraphs included in Audit Reports are required to be submitted within three months of an Audit Report being presented to the Legislature.

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

The PAG conducts periodical inspection of Government Departments to test check the transactions and verify the maintenance of important accounts and

<sup>1</sup> Interest receipts include interest receipts from irrigation projects (2011-12 – ₹ 5726 crore), which is only a notional revenue, since it has arisen out of book adjustment.

other records as prescribed in the rules and procedures. These inspections are followed up with IRs, incorporating irregularities detected during the inspection and not settled on the spot, which are issued to the Heads of the offices inspected with a copy to the next higher authorities for taking prompt corrective action. The Heads of offices/Government are required to promptly comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial reply to the PAG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the Heads of Departments and the Government.

Details regarding IRs issued upto 31 December 2011 revealed that 34,117 paragraphs involving ₹ 12,873.06 crore relating to 11,444 IRs remained outstanding at the end of 30 June 2012 as mentioned below, alongwith the corresponding figures for the preceding two years:

**Table 1.4 - Summary of outstanding audit observations**

	June 2010	June 2011	June 2012
Number of outstanding IRs	10,689	11,417	11,444
Number of outstanding audit observations	28,990	32,322	34,117
Amount involved (Rs. in crore)	11,916.66	12,175.14	12,873.06

The Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 and the amounts involved are mentioned below:

**Table 1.5 - Department wise details of outstanding audit observations**

(₹ in crore)

Sl. No.	Department	Nature of receipt	No. of outstanding IRs	No. of outstanding audit observations	Money value involved
1.	Commercial Taxes	VAT/ST/LT/ET	3,960	14,510	3,350.92
2.	Land Revenue	Water Tax, Conversion Fee	3,651	8238	2,324.94
3.	Registration and Stamps	Stamp duty & Registration fees	2,347	6,530	801.66
4.	Prohibition and Excise	State Excise Duty	711	1,788	177.81
5.	Transport	Taxes on vehicles	427	2,400	2,541.92
6.	Mines and Minerals	Mineral Receipts	265	550	1,729.31
7.	Sugar and Cane	Purchase tax	57	71	249.00
8.	Energy	Electricity duty	16	20	809.45
9.	Municipal Administration and Urban Development	Royalty on water	2	2	83.19
10.	Finance and Planning	Interest	4	4	474.81
11.	Irrigation and Command Area Development	Road cess	4	4	330.05
<b>Total</b>			<b>11,444</b>	<b>34,117</b>	<b>12,873.06</b>

Even the first replies required to be received from the heads of offices within one month from the date of issue of the IRs were not received for 323 IRs issued upto December 31, 2011. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and heads of the Departments failed to initiate action to rectify the defects, omissions and irregularities pointed out by the PAG in the IRs.

**We recommend that the Government should introduce a system for sending prompt and appropriate response to audit observations as well as taking action against those failing to send replies to the IRs/paragraphs as per the prescribed time schedules.**

### 1.2.2 Departmental audit committee meetings

The Government set up audit committees to monitor and expedite the progress of the settlement of IRs and paragraphs in the IRs. The details of the audit committee meetings held during the year 2011-12 and the paragraphs settled are mentioned below:

**Table 1.6 - Details of Departmental audit committee meetings**

(₹ in crore)

Sl. No.	Head of revenue	No. of meetings held	No. of paras settled	Amount
1.	Commercial Taxes	5	545	16.42
2.	Taxes on Vehicles	3	177	20.03
3	Stamp Duty & Registration Fee	3	279	0.58
4	Land Revenue	1	271	0.09
<b>Total</b>		<b>12</b>	<b>1,272</b>	<b>37.12</b>

**As the pendency of IRs and paragraphs are accumulating, we recommend that the Government may instruct all the Departments to conduct more audit committee meetings to expedite clearance.**

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

The programme of local audit is drawn up sufficiently in advance and intimations are issued, usually one month before the commencement of audit to the Departmental offices to enable them to keep the relevant records ready for audit scrutiny.

During 2011-12, audit of 1,024 offices was conducted. Out of these, in 110 offices certain important records like Sales Tax assessment files, DCB registers, Receipt books, Daily collection registers etc., were not produced to audit though the audit programme was intimated well in advance.

**We recommend that the Government may issue suitable instructions to the heads of Departments concerned for production of all the relevant records for audit scrutiny.**

### 1.2.4 Response of the Departments to draft audit paragraphs

The draft paragraphs/performance audits proposed for inclusion in the Audit Report are forwarded by the PAG to the Principal Secretaries of the concerned Departments through demi-official letters. According to the instructions issued (September 1995) by the Government, all the Departments are required to furnish their remarks on the draft paragraphs/reviews within six weeks of their receipt. The fact of non-receipt of replies from the Government is invariably indicated at the end of each such paragraph included in the Audit Report.

117 draft paragraphs clubbed into 35 paragraphs (including 2 Performance Audits) proposed for inclusion in the Report of the Comptroller and Auditor General of India (Revenue Sector) for the year ended 31 March 2012 were forwarded to the concerned Principal Secretaries to the Government and copies endorsed to the concerned heads of the Departments between March and October 2012. Of these, replies to only 23 draft paragraphs have been received from Government<sup>2</sup>.

### 1.2.5 Follow up on Audit Reports – Summary

As per the instructions issued by Finance and Planning Department in November 1993, the Departments of the Government are required to prepare and send to the Andhra Pradesh Legislative Assembly Secretariat, detailed explanations (Departmental notes) on the audit paragraphs within three months of an Audit Report being laid on the table of the Legislature.

A review of the position in this regard revealed that as of January 2013, 14 Departments had not furnished the Departmental notes in respect of 191 paragraphs included in the Audit Reports for the years 2000-01 to 2010-11 due between June 2002 and June 2012. The delays ranged from 7 months to over 10 years as mentioned in the following table:

**Table 1.7 - Status of Departmental notes due**

Sl. No.	Department	Year of the Audit Report	Dates of presentation to the Legislature	Last date by which Departmental notes were due	No. of paragraphs for which the Departmental notes were due	Delay in months
1.	Commercial Taxes	2007-08 to 2010-11	September 2009 to March 2012	November 2009 to June 2012	74	7 to 38
2.	State Excise	2008-09 to 2010-11	July 2010 to December 2011	October 2010 to March 2012	6	10 to 27
3.	Transport	2010-11	March 2012	June 2012	7	7
4.	Registration and Stamps	2009-10 & 2010-11	March 2011 & March 2012	June 2011 & June 2012	17	7 to 19
5.	Co-operation	2000-01 & 2008-09	March 2002 & July 2010	June 2002 & October 2010	4	27 to 127
6.	Irrigation	2000-01 & 2006-07	March 2002 & March 2008	June 2002 & June 2008	4	55 to 127

<sup>2</sup> Responses received from the Department on preliminary audit findings have been duly considered.

Sl. No.	Department	Year of the Audit Report	Dates of presentation to the Legislature	Last date by which Departmental notes were due	No. of paragraphs for which the Departmental notes were due	Delay in months
7.	Land Revenue	2001-02 to 2010-11	March 2003 to March 2012	June 2003 to June 2012	62	7 to 115
8.	Industries & Commerce	2004-05; 2005-06 & 2010-11	March 2006, March 2007 & March 2012	June 2006, June 2007 & June 2012	6	79, 67 & 7
9.	Home	2006-07	March 2008	June 2008	1	55
10.	Energy	2001-02	March 2003	June 2003	1	115
11.	Municipal Administration and Urban Development	2002-03 & 2003-04	July 2004 & October 2005	October 2004 & January 2006	3	84 & 99
12.	Finance	2001-02 & 2009-10	March 2003 & March 2011	June 2003 & June 2011	2	19 & 115
13.	Forests	2003-04, 2005-06 & 2007-08	October 2005, March 2007 & September 2009	January 2006, June 2007 & November 2009	3	84, 67 & 38
14.	General Administration	2005-06	March 2007	June 2007	1	67
	<b>Total</b>	<b>2000-01 to 2010-11</b>	<b>March 2002 to March 2012</b>	<b>June 2002 to June 2012</b>	<b>191</b>	<b>7 to 127</b>

This indicates that the executive failed to take prompt action on the important issues highlighted in the Audit Reports that involved large sums of unrealised revenue.

### 1.2.6 Compliance with the earlier Audit Reports

During the years 2006-07 to 2010-11, the Departments/Government accepted audit observations involving ₹ 2359.85 crore, out of which an amount of ₹ 16.73 crore was recovered till September 2012 as mentioned below:

**Table 1.8 - Recovery of accepted audit observations**

(₹ in crore)			
Year of Audit Report	Total money value	Accepted money value	Recovery made
2006-07	401.59	245.39	3.42
2007-08	443.46	177.31	4.42
2008-09	628.76	342.25	3.84
2009-10	1,168.41	1,046.51	4.25
2010-11	772.43	548.39	0.80
<b>Total</b>	<b>3,414.65</b>	<b>2,359.85</b>	<b>16.73</b>

The percentage of recovery of accepted cases as compared to the accepted money value was very low (0.71 per cent).

**We recommend that the Government may advise the concerned Departments to take necessary steps for speedy recovery, especially in cases where the Departments have accepted audit's contention.**



### 1.3 Analysis of arrears of revenue

As per the information furnished by the Departments, the arrears of revenue as on 31 March 2012 in respect of some principal heads of revenue amounted to ₹ 6,473.87 crore of which ₹ 3,552.54 crore were outstanding for more than five years as detailed in the following table:

**Table 1.9 - Reported arrears of revenue**

(₹ in crore)

Sl. No.	Head of revenue	Amount outstanding as on 31 March 2012	Amount outstanding for more than five years as on 31 March 2012	Remarks
1	Land revenue	427.51	370.39	Not furnished by Department.
2	Taxes on vehicles	3,316.54	1,330.50	₹ 3312.56 Crore is due from APSRTC. ₹ 3.98 crore is due from other individual cases.
3	Stamp duty and registration fee	40.80	NA	Write off proposal amounting to ₹ 7.15 crore is pending with Government.
4	Taxes and duties on electricity	2,599.04	1,539.69	Amount of ₹169.47 crore was stayed by High Court. Demand of ₹ 2429.57 crore is stated to be recoverable.
5	Mines and minerals	89.98	NA	Amount stated to be covered by Revenue Recovery process.
6	Receipts under Sugarcane (Regulation, Supply and Purchase Tax) Act	-	311.96	Not available.
<b>Total</b>		<b>6,473.87</b>	<b>3,552.54</b>	

The above figures are reported by the Departments and their reliability cannot be vouchsafed in audit.

### 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* includes 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 past five years etc.

Besides the compliance audit of individual unit offices under various Departments, two Performance Audits on 'VAT Audits and Refunds', 'Disaster Preparedness' were also taken up to examine the efficacy of the Departmental audits and authorization of refunds and status of preparedness in the state of Andhra Pradesh to deal with disasters.

## **1.5 Results of audit**

### **1.5.1 Position of compliance audits conducted during the year**

Test check of the records of 1,024 units of commercial tax, stamp duty and registration fees, state excise, motor vehicles, land revenue and other Departmental offices conducted during the year 2011-12 revealed preliminary audit findings involving under assessments/short levy/loss of revenue aggregating to ₹ 506.34 crore in 2,658 cases. During the course of the year, the departments concerned accepted under-assessments and other deficiencies of ₹ 115.40 crore involved in 1,254 cases of which 203 cases involving ₹ 76.56 crore were pointed out in audit during 2011-12 and the rest in the earlier years. The Departments collected ₹ 3.59 crore in 264 cases during 2011-12.

### **1.5.2 This Report**

This report contains 33 paragraphs involving ₹ 195.31 crore (selected from the preliminary audit observations relating to short/non-levy of tax, duty, interest, penalty etc., made during local audit referred to above and during earlier years, but which could not be included in earlier reports); a Performance Audit on "VAT Audits and Refunds" involving revenue implication of ₹ 49.39 crore and a Performance Audit on "Disaster Preparedness." Out of the total financial effect of ₹ 244.70 crore, the Departments/Government have accepted audit observations involving ₹ 84.09 crore, out of which ₹ 0.86 crore had been recovered. The replies in the remaining cases have not been received (January 2013). These are discussed in the succeeding Chapters II to VII.