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 2011-12, 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	2007-08	2008-09	2009-10	2010-11	2011-12
1.	**Revenue raised by the State Government**					
	• Tax revenue	29,619.10	33,684.37	36,546.66	47,782.17	59,517.66
	• Non-tax revenue	3,304.37	5,712.33	5,027.05	4,651.45	5,683.57
	Total	**32,923.47**	**39,396.70**	**41,573.71**	**52,433.62**	**65,201.23**
2.	**Receipts from the Government of India**					
	• State's share of divisible Union taxes	8,065.27	8,510.80	8,756.20	10,913.98	12,714.60[1]
	• Grants-in-aid	6,531.77	7,135.01	5,514.22	6,840.02	7,286.31
	Total	**14,597.04**	**15,645.81**	**14,270.42**	**17,754.00**	**20,000.91**
3.	**Total receipts of the State Government (1 + 2)**	47,520.51	55,042.51	55,844.13	70,187.62	85,202.14
4.	**Percentage of 1 to 3**	**69**	**72**	**74**	**75**	**77**

The above table indicates that during the year 2011-12, the revenue raised by the State Government (₹ 65,201.23 crore) was 77 *per cent* of the total revenue receipts against 75 *per cent* in the preceding year. The balance 23 *per cent* of the receipts during 2011-12 was from the Government of India.

[1] 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 2011-12. 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 2007-08 to 2011-12:

(₹ 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.	Sales tax/VAT	18,156.36	20,674.70	22,661.52	28,614.23	36,288.90	(+) 26.82
2.	State excise	4,764.06	5,755.52	6,740.68	8,115.94	9,975.21	(+) 22.91
3.	Stamp duty and registration fees						
	Stamps – Judicial	76.87	79.58	78.63	98.08	105.65	(+) 7.72
	Stamps – non-judicial	3,124.92	3,127.28	3,019.98	3,817.57	5,505.56	(+) 44.22
	Registration fees	602.95	586.82	563.55	734.94	969.57	(+) 31.93
4.	Taxes on vehicles	1,483.21	1,709.57	2,024.64	2,660.05	3,101.09	(+)16.58
5.	Land revenue	78.03	207.73	116.66	113.28	87.21	(-) 23.01
6.	Taxes on immovable property other than agricultural land (urban land tax)	15.75	11.79	12.01	10.21	10.89	(+) 6.66
7.	Others	1,316.95	1,531.38	1,328.99	3,617.87	3,473.58	(-) 3.99
	Total	**29,619.10**	**33,684.37**	**36,546.66**	**47,782.17**	**59,517.66**	

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

Sales tax/VAT: The increase in revenue was due to levy of fresh taxes on beedi and edible oil. Also tax rates were increased in respect of commodities mentioned in Part B and C of first schedule of TNVAT Act, cell phone, tobacco products and sale of food and drinks by star hotels.

State excise: The increase in revenue was due to huge receipts under 'vend fee on foreign liquor and spirits', duty on beer and malt liquor.

Stamp duty and registration fees: The increase in revenue was due to increase in the sale of non-judicial stamp and fees for registering documents and also includes the increase in monetary value with effect from 12 July 2011 under Articles 6(1)(a), 35 and 48 of Schedule I of the Indian Stamp Act, 1899.

Taxes on vehicles: The increase in revenue was due to increase of ₹ 406.53 crore under 'receipts under the Tamil Nadu Motor Vehicles Taxation Act, 1974'.

Land Revenue: The decrease was due to fall in revenue under 'sale proceeds of waste lands and redemption of land tax' during the current year by ₹ 15.32 crore as compared to the previous year.

The other Departments did not furnish (December 2012) the reasons for variation despite being requested (July 2012).

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

(₹ 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, dividends and profits	1,282.20	1,501.09	1,845.61	1,689.78	2,056.89	(+) 21.73
2.	Crop husbandry	82.41	73.53	92.54	116.30	125.32	(+) 7.76
3.	Forestry and wild life	46.42	82.65	86.90	139.22	105.86	(-) 23.96
4.	Non-ferrous mining and metall-urgical industries	581.76	527.36	610.89	675.87	943.83	(+) 39.65
5.	Education, sports, art and culture	301.40	302.74	383.64	518.83	483.26	(-) 6.86
6.	Other receipts	1,010.18	3,224.96	2,007.47	1,511.45	1,968.41	(+) 30.23
	Total	**3,304.37**	**5,712.33**	**5,027.05**	**4,651.45**	**5,683.57**	

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

Interest receipts, dividends and profits: The increase in revenue was due to increase of interest realised under 'loans to municipalities and municipal corporations' except Chennai and interest received from local bodies and Tamil Nadu Urban Development Project.

Forestry and wild life: The decrease in revenue was due to decrease in sale of timber and other forest produce.

Non-ferrous mining and metallurgical industries: The increase in revenue was due to increase in receipts under mineral concession fees, rents and royalties and receipts from sand quarry operations.

The other Departments did not furnish (December 2012) the reasons for variation despite being requested (July 2012).

1.2 Response of the Departments/Government towards audit

1.2.1 Failure of the senior officials to enforce accountability and protect the interests of the State Government

The Principal Accountant General (Economic and Revenue Sector Audit), Tamil Nadu (PAG) conducts periodical inspection of Government Departments to test check the transactions and verify the maintenance of accounts and other records as prescribed in the rules and procedures. These inspections are followed up with inspection reports (IRs) bringing out 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 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 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 2011 and found that 22,320 paragraphs involving ₹ 3,054.95 crore relating to 7,008 IRs remained outstanding at the end of June 2012 as mentioned below along with the corresponding figures for the preceding two years:

	June 2010	June 2011	June 2012
Number of outstanding IRs	7,204	7,101	7,008
Number of outstanding audit observations	23,636	23,075	22,320
Amount involved (₹ in crore)	3,442.72	3,424.21	3,054.95

Department-wise details of the IRs and audit observations outstanding as on 30 June 2012 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 obser-vations	
1.	Commercial Taxes and Registration	Sales tax/Value added tax	2,952	13,427	1,153.34
		Stamp duty and registration fees	1,534	3,735	512.52
		Entry tax	164	295	5.82
		Entertainment tax	54	58	2.18
		Luxury tax	111	130	2.28
		Betting tax	12	23	0.09
2.	Revenue	Land revenue	882	2,184	465.71
		Urban land tax	214	567	41.90
		Taxes on agricultural income	72	175	81.03

3.	Home (Transport)	Taxes on vehicles	452	847	113.12
4.	Home (Prohibition and Excise)	State excise	211	248	80.62
5.	Industries	Mines and minerals	270	499	317.83
6.	Energy	Electricity duty	80	132	278.51
Total			**7,008**	**22,320**	**3,054.95**

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 506 paragraphs issued upto December 2011. 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 takes suitable steps to install an effective procedure for prompt and appropriate response to audit observations as well as take action against officials/officers who have not sent replies to the IRs/paragraphs as per the prescribed time schedules or 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 settlement of paragraphs in the IRs.

To this end it is necessary that the Audit Committees meet regularly and ensure that final action is taken in respect of all the audit observations outstanding for more than a year. During the year 2011-12, six meetings were held in which 196 paragraphs involving a money value of ₹ 8.01 crore were settled.

We recommend that the Government suitably instructs the concerned Departments to come up with proposals for conduct of the Audit Committee meetings and takes 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 2011-12, 19,263 sales tax assessment records relating to 171 offices were not made available for audit. Of these, 155 assessments pertain to two special circles (LTU I, Chennai and FTAC I, Coimbatore), 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.

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 44 draft paragraphs (clubbed into 21 paragraphs including two Performance Audits) proposed to be included in the Report of the Comptroller and Auditor General of India for the year ended March 2012 to the Secretaries of the respective Departments between April and October 2012 through demi-official letters. The Secretaries of the Departments did not send replies to 26 draft paragraphs (including two Performance Audit reports). Thus, there was non-compliance of the above mentioned instructions of the Government. These paragraphs have, therefore, been included 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 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 2012 on the 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 991 recommendations pertaining to 290 audit paragraphs discussed by PAC. Out of the pending 991 recommendations, ATNs have not been received in respect of 441 recommendations even once, the earliest of which relates to the Audit Report for the year 1986-87.

Further, PAC has 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 2001-02 to 2010-11 were placed before the Legislative Assembly between May 2003 and May 2012, the Departments are yet to submit explanatory notes for 127 paragraphs included in these reports.

1.2.6 Compliance with the earlier Audit Reports – Position of recovery of accepted cases

During the period from 2006-07 to 2010-11, the Departments/Government accepted audit observations involving ₹ 343.81 crore, of which ₹ 83.92 crore had been recovered till 31 October 2012 as mentioned below:

(₹ in crore)

Year of Audit Report	Total money value	Accepted money value	Collected
2006-07	151.38	91.56	64.68
2007-08	408.47	103.13	9.31
2008-09	337.40	115.99	2.22
2009-10*	239.97	13.13	6.52
2010-11	742.00	20.00	1.19
Total	**1879.22**	**343.81**	**83.92**
*** including a stand alone report on Registration Department**			

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, action taken on the paragraphs and Performance Audits 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 **Commercial Taxes and Registration Department (Stamp Duty and Registration Fees)** 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 2006-07 to 2010-11.

1.3.1 Position of Inspection Reports

The summarised position of IRs issued in respect of the Commercial Taxes and Registration Department (Stamp Duty and Registration Fees) during the last five years, paragraphs included in these reports and their status as on 30 September 2012 are given in the following table:

(₹ in crore)

Year	Opening balance			Additions during the year			Clearance during the year			Closing balance		
	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value	IRs	Paragraphs	Money value
2006-07	903	1,480	140.86	315	523	28.47	230	471	22.64	988	1,532	146.69
2007-08	988	1,532	146.69	294	1,012	125.32	112	233	10.70	1,170	2,311	261.31
2008-09	1,170	2,311	261.31	224	771	58.03	155	447	59.02	1,239	2,635	260.32
2009-10	1,239	2,635	260.32	188	718	76.32	50	169	3.75	1,377	3,184	332.89
2010-11	1,377	3,184	332.89	252	868	152.95	194	632	32.30	1,435	3,420	453.54

The above position indicates that the action taken by the Department in clearance of the paragraphs is very minimal when compared to the additions of inspection reports and paragraphs every year.

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 Commercial Taxes and Registration Department (Stamp Duty and Registration Fees) included in the Audit Reports of the last five years, those accepted by the Department and the amount recovered is mentioned below:

(₹ in crore)

Year of Audit Report	Number of paragraphs included	Money value of the paragraphs	Number of paragraphs accepted	Money value of accepted paragraphs	Amount recovered
2006-07	3	8.58	3	8.58	1.00
2007-08	12	42.63	5	19.72	6.95
2008-09	8	10.73	5	3.38	0.68
2009-10*	19	90.84	2	0.46	0.46
2010-11	5	3.48	3	1.74	0.24
Total	**47**	**156.26**	**18**	**33.88**	**9.33**
* Stand Alone Report					

The above table indicates that the overall percentage of recoveries of the accepted cases to the money value of the paragraphs included is less than six *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 Audit Reports are forwarded to the concerned Department/Government for their information with a request to furnish their replies. These reports are also discussed in an Exit Conference and the Department's/Government's views are included while finalising the Performance Audit Reports.

The following table shows the issues highlighted in two Performance Audit Reports on the Commercial Taxes and Registration Department (Stamp Duty and Registration Fees) featured in the Audit Reports for the years 2007-08 and 2009-10 including the recommendations and the 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
2007-08	Computerisation of the Registration Department	3	---
2009-10	Stand Alone Report	8	---

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 annual parameters. Annual Audit Plan is prepared on the basis of such risk analysis which, *inter-alia*, include critical issues in Government Revenue 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 2011-12, the audit universe comprised 1,387 auditable units, of which 614 units were planned for audit. Out of this 583 units were audited during the year 2011-12 i.e., 42 *per cent* of the total auditable units. The details are shown in the annexure-I.

1.5 Results of audit

1.5.1 Position of local audit conducted during the year

We test checked the records of 583 units of commercial taxes, land revenue, state excise, motor vehicles tax, stamp duty and registration fees, electricity tax and mines and minerals in 2011-12 and found under assessments, short levy, loss of revenue and other observations amounting to ₹ 852.86 crore in 2,330 cases. During the year, the Departments accepted under assessments and other deficiencies in 795 cases involving ₹ 89.18 crore of which 214 cases involving ₹ 62.00 crore were pointed out in 2011-12 and the rest in earlier years. As a result, the Departments collected ₹ 9.47 crore during 2011-12.

1.5.2 This Report

This Report contains 21 paragraphs including two Performance Audit Reports relating to non/short levy of taxes, duties, interest and penalties and other audit observations involving financial effect of ₹ 549.40 crore. The Departments/Government accepted the audit observations involving ₹ 82.45 crore, of which ₹ 5.37 crore has been recovered/adjusted by the Departments. We have not received replies in the remaining cases (December 2012). These are discussed in the succeeding chapters II to V.