

CHAPTER I GENERAL

1.1 Revenue Receipts

1.1.1 The tax and non-tax revenue raised by the Government of Andhra Pradesh, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grant-in-Aid received from the Government of India during the year 2015-16 and the corresponding figures for the preceding four years are mentioned in Table 1.1.1.

**Table 1.1.1
Trend of Revenue Receipts**

(₹ in crore)

Sl. No.	Particulars	2011-12*	2012-13*	2013-14*	1 April 2014 to 1 June 2014*	2 June 2014 to 31 March 2015	2015-16 ¹
1.	Revenue raised by the State Government						
	• Tax revenue	53,283.41	59,875.05	64,123.53	12,761.15	29,856.87	39,907
	• Non-tax revenue	11,694.34	15,999.14	15,472.86	2,794.62	8,181.35	4,920
	Total	64,977.75	75,874.19	79,596.39	15,555.77	38,038.22	44,827
2.	Receipts from the Government of India						
	• Share of Net Proceeds of Divisible Union Taxes and Duties	17,751.15	20,270.77	22,131.89	3,852.96	11,446.29	21,894
	• Grants-in-Aid	10,824.79	7,685.32	8,990.55	5,568.32	16,210.89	21,927
	Total	28,575.94	27,956.09	31,122.44	9,421.28	27,657.18	43,821
3.	Total revenue receipts of the State Government (1 and 2)	93,553.69	1,03,830.28	1,10,718.83	24,977.05	65,695.40	88,648
4.	Percentage of 1 to 3	69	73	72	62	58	51

* Data pertains to composite State of Andhra Pradesh for 23 districts.

The revenue raised by the State Government (₹ 44,826.55 crore) during 2015-16 was 51 *per cent* of the total revenue receipts. The remaining 49 *per cent* of the receipts during the period was from the Government of India.

¹ For details please see Statement No.14- Detailed accounts of revenue by Minor Heads in the Finance Accounts of Andhra Pradesh for the period 1 April 2015 to 31 March 2016. Figures under the Major Heads '0020-Corporation Tax, 0021-Taxes on Income other than Corporation Tax, 0028-Other Taxes on Income and Expenditure, 0032-Taxes on Wealth, 0037-Customs, 0038-Union Excise Duties, 0044-Service Tax and 0045-Other Taxes and Duties on Commodities and Services - share of net proceeds assigned to States booked in the Finance Accounts under A-Tax revenue have been excluded from revenue raised by the State and included in the State's share of divisible Union taxes in this table. The figures in the sixth column relate to erstwhile State of Andhra Pradesh with 23 districts while the figures under last two columns relate to the successor State of Andhra Pradesh with 13 districts.

1.1.2 The details of the Tax Revenue raised during the year 2015-16 are given in Table 1.1.2.

Table 1.1.2
Details of Tax Revenue Raised

(₹ in crore)

Sl. No	Head of Revenue	2011-12*		2012-13*		2013-14*		BE for the period from 1 April 2014 to 31 March 2015	Actuals* for 1 April 2014 to 1 June 2014	Actuals for 2 June 2014 to 31 March 2015	2015-16	
		BE	Actuals	BE	Actuals	BE	Actuals				BE	Actuals ²
1.	Taxes on Sales, Trade etc.	38,306	34,910	45,000	40,715	52,500	48,737	28,749	8,852	21,672	32,840	29,104
2.	State Excise	9,014	9,612	10,820	9,129	7,500	6,250	4,027	710	3,642	4,680	4,386
3.	Stamp Duty and Registration Fee	4,240	4,385	4,968	5,115	6,414	4,393	2,460	689	2,561	3,500	3,527
4.	Taxes on Vehicles	3,434	2,986	3,640	3,356	4,351	3,335	1,384	2,264	1,423	1,977	2,082
5.	Others	1,445	1,390	1,593	1,560	1,676	1,409	17,616	246	559	1,426	808
	Total	56,439	53,283	66,021	59,875	72,441	64,124	54,236	12,761	29,857	44,423	39,907

* Data pertains to composite State of Andhra Pradesh for 23 districts.

There is overall variation of ₹ 4,516 crore between Budget Estimates (BE) and Actuals. The Departments of Registration and Stamps and Transport have exceeded their estimates by ₹ 132 crore in realising the revenue.

1.1.3 The details of the non-tax revenue raised during the year 2015-16 are indicated in Table 1.1.3:

Table 1.1.3
Details of Non-tax Revenue Raised

(₹ in crore)

Sl. No	Head of revenue	2011-12*		2012-13*		2013-14*		BE for the period from 1 April 2014 to 31 March 2015	Actuals* for 1 April 2014 to 1 June 2014	Actuals for 2 June 2014 to 31 March 2015	2015-16	
		BE	Actuals	BE	Actuals	BE	Actuals				BE	Actuals ³
1.	Interest Receipts	7,164	6,279	8,632	9,626	8,656	8,646	4,813	198	4,597	154	133
2.	Mines and Minerals	2,995	2,337	2,734	2,771	3,083	2,731	1,226	408	811	1,359	1,523
3.	Education, Sports, Art and Culture	204	675	274	1,196	1,219	1,676	90	342	1,087	1,136	856
4.	Others	1,976	2,403	2,213	2,406	2,436	2,420	2,882	1,847	1,686	2,692	2,408
	Total	12,339	11,694	13,853	15,999	15,394	15,473	9,011	2,795	8,181	5,341	4,920

* Data pertains to composite State of Andhra Pradesh for 23 districts.

There is overall variation of ₹ 421 crore between Budget Estimates and Actuals. The Department of Mines and Minerals have exceeded their target by ₹ 164 crore.

² Source: Statement 14 of Finance Accounts.

³ Source: Statement 14 of Finance Accounts.

1.2 Analysis of Arrears of Revenue

The arrears of revenue as on 31 March 2016 on some principal heads of revenue amounted to ₹ 16,616.28 crore as detailed in the **Table -1.2**.

Table 1.2
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2016	Amount outstanding for more than five years as on 31 March 2016
1.	Taxes / VAT on Sales, Trade etc.	11,179.08	10,895.59
2.	Stamp Duty and Registration Fee	21.18	21.18
3.	Land Revenue	1,796.00	1,395.31
4.	Taxes and Duties on Electricity	3,620.02	3,584.50
Total		16,616.28	15,896.58

Source : Information furnished by the Departments concerned .

The Departments concerned did not furnish any reasons for the amounts in arrears, collection of which was pending for more than five years.

1.3 Arrears in Assessments

As per the provisions of the AP VAT Act, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within four years. The information furnished by Commercial Taxes Department is indicated in the **Table 1.3**.

Table 1.3
Arrears in Assessments

(No. of cases)

Name of Tax	Opening Balance	New Cases due for Assessment during 2015-16	Total Assessments due	Cases disposed of during 2015-16	Balances at the end of the March, 2016	Percentage of column 5 to 4
CST	43,266	22,595	65,861	28,361	37,500	43
VAT	2,699	7,328	10,027	4,102	5,925	41
Luxury Tax	273	270	543	313	230	58
Total	46,238	30,193	76,431	32,776	43,655	43

1.4 Evasion of Tax detected by the Department

The details of cases of evasion of tax detected by the Departments, cases finalised and the demands for additional tax raised and cases pending finalisation as on 31 March 2016 as furnished by the Departments of Commercial Taxes and Registration & Stamps are given in **Table 1.4**.

Table 1.4
Evasion of Tax

Sl. No.	Name of Tax/Duty	Cases pending as on 31 March 2015	Cases detected during 2015-16	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 2016	
					(₹ in crore)			
					No. of Cases	Amount of demand		
1.	VAT	4,185	12,078	16,263	11,202	530.42	4,937	
2.	Stamp Duty and Registration Fee	3,361	1,178	4,539	4,294	0.52	250	

Departments of Prohibition and Excise, Transport, Land Revenue, Energy and Mines and Geology did not furnish the information though called for.

1.5 Pendency of Refund cases

Commercial Taxes Department communicated (December 2016) that an amount of ₹ 92.85 crore involving 243 cases was refunded during 2015-16. It was also intimated that 331 claims for refunds were pending to the end of March 2016 which involved ₹ 110.15 crore.

The Department of Registration and Stamps reported (July 2016) that no refunds were made by the Department during the year 2015-16. Other Departments viz. Prohibition and Excise, Transport, Land Revenue, Energy and Mines and Geology did not furnish the information though called for.

1.6 Response of the Government / Departments towards Audit

The Accountant General (E & RSA), Andhra Pradesh and Telangana conducts periodical inspection of the Government Departments to test check the transactions and verify the maintenance of important accounts and other records as prescribed in the rules and procedures. These inspections are followed up with the 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 reply to the AG within one month from the date of issue of the IRs. Serious financial irregularities are reported to the heads of the Department and to the Government.

Inspection Reports issued up to December 2015 disclosed that 14,336 paragraphs involving ₹ 2,303.83 crore relating to 4,436 IRs remained outstanding at the end of June 2016 as shown below along with the corresponding figures for the preceding two years in **Table 1.6**.

Table 1.6
Details of pending Inspection Reports

	June 2014	June 2015	June 2016
Number of IRs pending settlement	5,297	4,197	4,436
Number of Paragraphs outstanding	14,080	11,681	14,336
Amount of revenue involved (₹ in crore)	2,683.51	1,288.81	2,303.83

1.6.1 The Department-wise details of the IRs and audit paragraphs outstanding as on 30 June 2016 and the amounts involved are mentioned in the **Table 1.6.1**.

Table 1.6.1
Department-wise details of IRs

Sl. No.	Name of the Department	Nature of receipts	(₹ in crore)		
			Number of outstanding IRs	Number of outstanding Paragraphs	Money value involved
1.	Revenue	Value Added Tax and Central Sales Tax	1,484	5,461	822.42
		State Excise Duty	251	660	47.55
		Land Revenue	874	2,432	215.56
		Stamp Duty and Registration Fee	1,317	3,702	233.47
2.	Transport, Roads and Buildings	Taxes on Vehicles	221	1,038	122.13
3.	Industries and Commerce	Mines and Minerals	251	980	156.87
4.	Energy	Taxes and duties on Electricity	38	63	705.83
Total			4,436	14,336	2,303.83

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs, for 181 IRs issued during 2015-16. This large pendency of the IRs due to non-receipt of the replies is indicative of the fact that the heads of offices and the Departments did not initiate action to rectify the defects, omissions and irregularities pointed out by the AG in the IRs.

The Government may consider having an effective system for prompt and appropriate response to audit observations.

1.6.2 Departmental Audit Committee Meetings

The Government set up Audit Committees to monitor and expedite the progress of the settlement of the IRs and paragraphs in the IRs. During the year 2015-16, two Audit Committee Meetings were held by the Commercial Taxes Department and 140 paras involving ₹ 18.54 crore were settled.

1.6.3 Non-production of Records to Audit for Scrutiny

The programme of local audit of Tax Revenue / Non-tax Revenue offices is drawn up sufficiently in advance and 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.

During the year 2015-16, as many as 112 records, such as, Demand, Collection and Balance (DCB) Registers, CST assessment files, Annual Accounts of Dealers, Challan Posting Registers, Receipt Books, Village Accounts, Treasury Bills, Alienation Records, Bank scrolls, Stock and Sales registers of Stamps, files relating to Life Tax on construction equipment vehicles, retail liquor shop files and Service Books etc. were not made available to Audit. Break up of these details is given in **Table 1.6.3**.

Table 1.6.3
Details of non-production of records

Name of the Office/ Department		Number of offices which did not produce documents for Audit
Revenue	Commercial Taxes	65
	Prohibition and Excise	19
	Registration and Stamps	8
	Land Revenue	15
	Endowments	1
Transport, Roads and Buildings	Transport	4
Total		112

1.6.4 Response of the Departments to the Draft Audit Paragraphs

The draft audit paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India are forwarded by the AG to the Principal Secretaries / Secretaries of the Departments concerned drawing their attention to audit findings and requesting them to send their response within six weeks. The fact of non-receipt of the replies from the Departments/ Government is invariably indicated at the end of such paragraphs included in the Audit Report.

Fifty four draft audit paragraphs including one Performance Audit and one Follow-up Audit were sent to the Principal Secretaries/ Secretaries of the respective Departments by name between July and October 2016. The Principal Secretaries/ Secretaries of the Departments did not send replies to 40 draft audit paragraphs and the same have been included in this Report without the response of the Government.

1.6.5 Follow-up on the Audit Reports-summarised position

The internal working system of the Public Accounts Committee, notified in December 2002, laid down that after the presentation of the Report of the Comptroller and Auditor General of India in the Legislative Assembly, the

Departments shall initiate action on the audit paragraphs and explanatory notes thereon should be submitted by the Government within three months of tabling the Report, for consideration of the Committee. In spite of these provisions, the explanatory notes on audit paragraphs of the Reports are delayed inordinately. One hundred and fifty five paragraphs (including Performance Audits) included in the Reports of the Comptroller and Auditor General of India on the Revenue Sector of the Government of Andhra Pradesh for the years ended 31 March 2011, 2012, 2013, 2014 and 2015 were placed before the State Legislative Assembly between March 2012 and March 2016. Of these, 48 pertain exclusively to Andhra Pradesh whereas 107 paragraphs pertain to both Andhra Pradesh and Telangana. Explanatory notes in respect of 155 paragraphs from eight Departments (Commercial Taxes, Prohibition and Excise, Land Revenue, Stamp Duty and Registration Fee, Transport, Roads & Buildings, Industries and Commerce, Energy and Endowments) have not been received in respect of the Audit Reports from the year ended March 2011 to March 2015 so far (December 2016).

1.7 Analysis of the mechanism for dealing with the issues raised by Audit

To analyse the system of addressing the issues highlighted in the Inspection Reports / Audit Reports by the Departments / Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last five years for one Department is evaluated and included in this Audit Report.

The succeeding paragraph discusses the performance of Commercial Taxes Department under revenue head 0040 Taxes on Sales, Trade etc. and cases detected in the course of local audit during the last seven years and also the cases included in the Audit Reports for the years 2009-10 to 2015-16. These cases relate to the 13 Districts of the successor State of Andhra Pradesh.

1.7.1 Position of Inspection Reports

The summarised position of the inspection reports relating to the Commercial Taxes Department, issued during the last seven years in the 13 Districts of the successor state of Andhra Pradesh, paragraphs included in these reports and their status as on 31 March 2016 are detailed in **Table -1.7.1**.

Table 1.7.1
Position of Inspection Reports (IRs)

(₹ in crore)

Sl. No.	Year	Opening Balance			Additions during the year			Clearance during the year			Closing balance		
		IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
1	2009-10	1599	4500	923.33	110	690	83.56	116	401	23.23	1593	4789	983.66
2	2010-11	1593	4789	983.66	117	875	82.84	64	261	16.75	1646	5403	1049.75
3	2011-12	1646	5403	1049.75	119	1049	81.62	64	585	11.99	1701	5867	1119.38
4	2012-13	1701	5867	1119.38	26	287	15.34	39	717	55.64	1688	5437	1079.08
5	2013-14	1688	5437	1079.08	46	392	61.17	238	836	158.43	1496	4993	981.82
6	2014-15	1496	4993	981.82	87	1189	249.73	11	247	11.86	1572	5935	1219.69
7	2015-16	1572	5935	1219.69	88	920	207.56	361	1711	533.77	1299	5144	893.48

The above position indicates that the overall performance of the Department in clearance of Inspection Reports and Paras has not been very encouraging. There has been reduction of 300 IRs, net increase of paras by 644 and meagre reduction of money value by ₹ 29.85 crore over the period of seven years.

1.7.2 Action taken on the recommendations by the Department / Government

The Performance Audits conducted by the AG are forwarded to the Department concerned and to Government for their information with a request to furnish their replies. These Performance Audits are also discussed in an exit conference and the Department's / Government's views are included while finalising the Performance Audits for the Audit Reports.

The Performance Audits relating to Commercial Taxes Department featured in the last five years' Reports, details of recommendations and their status are given in **Table 1.7.2**.

Table 1.7.2
Status of Audit recommendations

Year of Report	Name of the Performance Audit	Status
2010-11	Taxation of works contracts under the APVAT Act	
Details of recommendations:		Explanatory Notes from Government are awaited. However, Commissioner of Commercial Taxes intimated (December 2016) that second and fourth recommendations were being implemented.
1. Institute a system of cross verification of TDS remitted from the Other Government Departments and also to obtain information from these Departments on regular basis and use the same to detect the evasion of tax and registration of unregistered works contractors;		
2. ensure implementation of issuing TDS certificates in Form 501A with unique ID to facilitate the verification of proper accountal of tax deducted/collected at source;		
3. put in place a system to monitor the filing of option for composition and update the VATIS package to enable verification of correctness of payment of tax;		
4. ensure the completion of VAT Audits as prescribed in the manual in order to detect any leakage of revenue before the cases become time barred;		
5. establish an independent internal audit wing for timely detection of errors and initiating suitable remedial measures.		
2010-11	Cross verification of Declaration Forms used in Inter State Trade	Status
Details of recommendations:		Explanatory Notes from Government are awaited.
1. Prescribe norms for conducting periodical cross verification of interstate transactions related to sales/purchases/branch transfers/ consignment transfers with original records maintained in other States and implement the same;.		
2. create a reliable database of the concessions and exemptions allowed to dealers by establishing a management information system to facilitate a systematic review and effective monitoring of the concessions and exemptions;		
3. set up a system for blacklisting dealers found utilising fake/invalid declaration forms;		
4. implement all aspects of the access controls and information security policy so as to enable effective functioning of online issue of statutory forms;		
5. provide commodity validation in the software i.e., the form should be given for the commodity for which the dealer is registered in the registration certificate (Software should be integrated with CST Registration certificate). Ensure the dealer validation of other states (through TINXSYS) from whom the local dealer purchases the goods;		
6. keep a specimen copy in the TINXSYS website duly mentioning/ displaying the security features of the forms of all the States for taking action on prima facie evidence;		
7. continue with the system of physical cross verification of declaration forms parallel to the web based checking until the electronic system of other States becomes fully operational.		

Year of Report	Name of the Performance Audit	Status	
2011-12	VAT Audits and Refunds		
Details of recommendations: <ol style="list-style-type: none"> The Department should focus on quality, rather than quantity of VAT audits, by adopting a risk-based approach which involves planning of fewer VAT audits but higher revenue collection (for which the auditing officers should be held accountable). They should also ensure a set of comprehensive and standardised guidelines for selection of dealers for VAT audits, so as to minimise discretionary and arbitrary selection; this must be invariably enforced in all jurisdictions. The audit module in VATIS should be designed and implemented to facilitate automatic selection, based on these guidelines. Implementation of such standardised guidelines should be monitored, and failure penalised. If necessary, a specified percentage of VAT audits (10 per cent or so) can be selected by the DC, using his judgment based on specified parameters. The Department should ensure effective monitoring of completion of VAT audits by specifying timelines (say 1 or 2 months), after which the VAT audited files must be mandatorily transferred to the respective jurisdictional offices. If the Department believes that the assessing officers are under excessive time pressure to complete VAT audits in timely manner, they may consider setting up a dedicated VAT audit wing (as is being followed by Tamil Nadu for VAT and by AP itself for Registration and Stamps). VAT-audited cases should be subject to a random check (based on a statistical sample), and poor quality VAT audits should result in penal action. The Department may also consider interaction with the Vigilance & Enforcement Department to discuss systemic trends of tax evasion, so as to plug leakage of revenue and also enrich the approach to VAT audits. 		Explanatory Notes from Government are awaited	
2014-15	Implementation of VAT (including IT Audit of VATIS)		
Details of recommendations: <ol style="list-style-type: none"> Built in provisions for automatic scrutiny of returns when they are filed and generation of penalty/demand notices in cases of non-filing and belated payments be introduced. Audit file tracking system may be integrated with VATIS so that the progress can be monitored. The checklist for the checks prescribed may also be integrated. Data in VATIS needs to be purged of inconsistencies and module integration taken up in a time-bound manner. 			Explanatory Notes from Government are awaited.

1.8 Audit Planning

The unit offices under various Departments are categorised into high, medium and low risk units according to their revenue position, past trends of the audit observations and other parameters. The annual audit plan is prepared on the basis of risk analysis which, *inter alia*, include critical issues concerning 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, audit coverage and its impact during past five years etc.

There were a total of 1,336 units of which 444 units were planned and 443 units were audited during the year 2015-16, which is 33 per cent of the total auditable units. Besides the compliance audit mentioned above, one Performance Audit was also taken up to examine the efficacy of the tax administration of these receipts.

1.9 Results of Audit

1.9.1 Position of Local Audit conducted during the year

Test-check of the records of 443 units of Commercial Taxes, Prohibition and Excise, Transport, Land Revenue, Registration and Stamps and other departmental offices conducted during the year 2015-16 showed under-assessment / short levy / loss of revenue aggregating ₹ 689.02 crore in 1,870 cases. During the course of the year, the Departments accepted under-assessment and other deficiencies of ₹ 28.55 crore in 568 cases, of which 335 cases involving ₹ 8.70 crore were pointed out in earlier years. An amount of ₹ 1.88 crore was realised in 171 cases during the year 2015-16. Of this, recovery of ₹ 1.21 crore in 127 cases relate to previous years.

1.9.2 Coverage of this Report

This Report contains 33 paragraphs (selected from the Audit detections made during the local audit referred to above and during earlier years, which could not be included in earlier reports) including one Performance Audit on 'Revision and Implementation of Market Value Guidelines' involving financial effect of ₹ 54.46 crore.

The Departments/ Government have accepted audit observations involving ₹ 14.74 crore out of which ₹ 0.74 crore had been recovered. The replies in the remaining cases have not been received (December 2016). These are discussed in succeeding Chapters.