

CHAPTER I

GENERAL

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1.1 Trend of revenue receipts

1.1.1 Tax and non-tax revenue raised by the Government of Tamil Nadu during the year 2014-15, 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 mentioned in Table 1.1.1.

Table 1.1.1
Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Revenue raised by the State Government					
	• Tax revenue	47,782.17	59,517.66	71,254.27	73,718.11	78,656.54
	• Non-tax revenue	4,651.45	5,683.57	6,554.26	9,343.27	8,350.60
	Total	52,433.62	65,201.23	77,808.53	83,061.38	87,007.14
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	10,913.98	12,714.60	14,519.69	15,852.76	16,824.03 ¹
	• Grants-in-aid	6,840.02	7,286.31	6,499.48	9,122.28	18,589.27
	Total	17,754.00	20,000.91	21,019.17	24,975.04	35,413.30
3.	Total revenue receipts of the State Government (1 + 2)	70,187.62	85,202.14	98,827.70	1,08,036.42	1,22,420.44
4.	Percentage of 1 to 3	75	77	79	77	71

Source: Finance Accounts of Government of Tamil Nadu

During the year 2014-15, the revenue raised by the State Government (₹ 87,007.14 crore) was 71 per cent of the total revenue receipts as against 77 per cent in the preceding year. The remaining 29 per cent of the receipts during 2014-15 was from the Government of India.

¹ For details please see Statement No. 14 – Detailed statements of revenue by minor heads of the Finance Accounts of the Government of Tamil Nadu for the year 2014-15. 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 2010-11 to 2014-15.

Table 1.1.2
Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Sales tax/VAT	25,504.65	28,614.23	33,393.95	36,288.90	44,007.69	44,041.13	52,826.74	53,532.17	65,202.06	57,190.80	(+) 6.83
2.	State Excise	7,508.18	8,115.94	8,935.23	9,975.21	11,473.97	12,125.68	14,469.87	5,034.91	6,483.04	5,731.18	(+) 13.83
3.	Stamp Duty and Registration Fee	4,096.18	4,650.59	5,856.07	6,580.78	8,466.94	7,645.40	9,874.22	8,251.25	10,470.18	8,362.33	(+) 1.35
4.	Taxes on Vehicles	2,396.42	2,660.05	3,033.11	3,101.09	4,141.11	3,928.43	4,881.15	3,683.58	5,147.14	3,828.95	(+) 3.95
5.	Land Revenue	38.79	113.28	70.82	87.21	80.02	131.31	112.38	272.83	171.57	170.54	(-) 37.49
6.	Taxes on immovable property other than agricultural land (urban land tax)	18.84	10.21	12.61	10.89	10.52	16.75	18.09	11.52	18.09	10.06	(-) 12.67
7.	Others	1,875.25	3,617.87	2,480.75	3,473.58	3,280.29	3,365.57	3,882.94	2,931.85	4,343.27	3,362.68	(+) 14.69
	Total	41,438.31	47,782.17	53,782.54	59,517.66	71,460.54	71,254.27	86,065.39	73,718.11	91,835.35	78,656.54	

Source: Finance Accounts of Government of Tamil Nadu

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

State Excise: The increase was mainly due to increase in 'State Excise' under (i) Duty on Wines and Spirits and Beer Manufactured in India including Medicated Wines (ii) Tender amount collected under Rule 9A of Tamil Nadu Liquor retail Vending (in Shops and Bars) Rules, 2003 under 'Foreign Liquor and Sprits' and (iii) Duty on Beer Manufactured in India under 'Malt Liquor'.

Land Revenue: The decrease was mainly due to decrease in revenue under 'Sale Proceeds of Waste Lands and Redemption of Land Tax'.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2010-11 to 2014-15.

Table 1.1.3
Details of Non-tax revenue raised

Sl. No.	Head of revenue	2010-11		2011-12		2012-13		2013-14		2014-15		Percentage of increase (+) or decrease (-) in 2014-15 over 2013-14
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	1,372.64	1,689.78	1,678.33	2,056.89	1,786.87	2,053.88	1,548.98	3,422.77	2,240.28	2,588.83	(-) 24.36
2.	Crop Husbandry	87.77	116.30	99.03	125.32	127.25	125.85	120.04	213.77	93.16	150.00	(-) 29.83
3.	Forestry and Wildlife	90.14	139.22	121.33	105.86	158.57	93.94	98.65	193.87	44.86	141.30	(-) 27.12
4.	Non-Ferrous Mining and Metallurgical industries	634.71	675.87	647.44	943.83	850.96	927.19	1,078.64	933.28	1,094.08	976.59	(+) 4.64
5.	Education, Sports, Art and culture	531.32	518.83	786.99	483.26	911.34	751.88	1,565.12	1,693.29	1,606.33	1,932.01	(+) 14.10
6.	Other receipts	1,384.70	1,511.45	1,511.45	1,968.41	2,197.62	2,601.52	2,353.66	2,886.29	3,005.27	2,561.87	(-) 11.24
	Total	4,101.28	4,651.45	4,844.57	5,683.57	6,032.61	6,554.26	6,765.09	9,343.27	8,083.98	8,350.60	

(₹ in crore)

Source: Finance Accounts of Government of Tamil Nadu

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

Interest receipts, dividends and profits: The decrease was mainly due to decrease in receipts under (i) Interest on belated payment of Electricity Tax, (ii) Interest realised on Investment of Cash Balances, (iii) Interest from Public Sector and other Undertakings under 'Ways and Means Advances to Statutory Corporation, Boards and Government Companies' and (iv) Interest Receipts from Ways and Means Advance to Tiruppur Corporation.

Crop Husbandry: The decrease was mainly due to decrease of revenue under 'Recoveries of over payments in Oil Seeds Department'.

Forestry and Wildlife: The decrease was mainly due to decrease of revenue under 'Sale of Sandalwood' under 'Sale of Timber and Other Forest Produce'.

Education, Sports, Art and Culture: The increase was mainly due to increase in revenue under 'Reimbursement of expenditure under Rashtriya Madhyamik Shiksha Abhiyan' and 'Receipts for payment of teachers in Government High Schools and Higher Secondary Schools under Sarva Shiksha Abhiyan'.

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2015, on some principal heads of revenue amounted to ₹ 25,664.98 crore, of which ₹ 10,322.39 crore was outstanding for more than five years, as detailed in Table 1.2.

Table 1.2
Arrears of revenue

(₹ in crore)

Sl. No.	Head of revenue	Total amount outstanding as on 31 March 2015	Amount outstanding for more than five years as on 31 March 2015	Replies of Department
1.	Sales Tax / VAT	22,214.09	7,690.44	Demands of ₹ 3,286.93 crore were covered by Recovery Certificates. Recovery of ₹ 4,285.15 crore was stayed by High Court and other judicial authorities. The Government stayed the collection of ₹ 28.23 crore. Amount of ₹ 434.45 crore was likely to be written off. Arrears covered by waiver and deferral schemes were ₹ 109.15 crore and ₹ 2,902.91 crore respectively. Amount of ₹ 680.14 crore was proposed to be eliminated. Remaining arrears of ₹ 10,487.13 crore were at various stages of collection.
2.	Stamp Duty and Registration Fee	318.77	213.92	Demands of ₹ 315.93 crore were covered by Recovery Certificates and collection of ₹ 2.84 crore was stayed by High Court and other judicial authorities.
3.	State Excise	35.38	35.38	Demands of ₹ 17.62 crore were covered by Recovery Certificates. Recovery of ₹ 1.25 crore was stayed by High Court and other judicial authorities. Amount likely to be written off was ₹ 5.73 crore. Remaining arrears of ₹ 10.78 crore were at various stages of collection.
4.	Taxes on Vehicles	2.07	1.58	Demands of ₹ 1.69 crore were covered by Recovery Certificates. An amount of ₹ 0.22 crore was stayed by High Court and other judicial authorities. Remaining arrears of ₹ 0.16 crore were at various stages of collection.
5.	Non-Ferrous Mining and Metallurgical industries	2,965.53	2,264.82	Demands of ₹ 141.03 crore were covered by Recovery Certificates. Recovery of ₹ 1,550.28 crore was stayed by High Court and other judicial authorities. Arrears of ₹ 231.42 crore were stayed by Government. Recovery stayed by rectification/review application was for ₹ 283.07 crore. Amount likely to be written off was ₹ 13.41 crore. Remaining arrears of ₹ 746.32 crore were at various stages of collection.

6.	Electricity Taxes	129.14	116.25	The various stages of pendency of arrears were not furnished.
	Total	25,664.98	10,322.39	

Source: Replies of concerned Departments

Recovery of arrears of ₹ 10,322.39 crore was pending for more than five years. However, recovery of some of the arrears has been stayed by judicial authorities. The table further indicates that the amount of uncollected revenue as on 31 March 2015 was about one-third of the total tax revenue raised by the Government during the year 2014-15. Substantial amounts (₹ 3,763.20 crore) were covered by Recovery Certificates.

1.3 Arrears in assessments

As per the provisions of the Tamil Nadu Value Added Tax (TNVAT) Act, the returns filed by the dealers for the year shall be deemed to have been assessed as on 31 October of the succeeding year. The TNVAT Act provides for selection of cases which were deemed to have been assessed for detailed scrutiny. The Department stated that scrutiny of 42,356 cases was yet to be completed as on 31 March 2015. The details of pendency furnished by the Department indicate that 10,793 cases relate to the assessment years 2006-07 and 2007-08, the selection of which was made between August 2008 and September 2010.

1.4 Evasion of tax detected by the Department

The details of cases of evasion of tax detected by the Commercial Taxes and Home (Transport) Departments, cases finalised and the demands for additional tax raised as reported by the Departments are given in Table 1.4.

Table 1.4

Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2014	Cases detected during 2014-15	Total	Number of cases in which assessment/ investigation completed and additional demand with penalty etc. raised		Number of cases pending for finalisation as on 31 March 2015
					Number of cases	Amount of demand (₹ in crore)	
1.	Sales Tax/VAT	4,584	7,029	11,613	6,766	8,305.16	4,847
2.	Taxes on Vehicles	75	216	291	216	0.84	75

The number of cases pending at the end of the year had increased when compared to that at the beginning of the year in respect of Sales Tax/VAT.

1.5 Pendency of Refund Cases

The number of refund cases pending at the beginning of the year 2014-15, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2014-15 as reported by the Departments are given in Table 1.5.

Table 1.5
Details of pendency of refund cases

(₹ in crore)

Sl. No.	Particulars	Sales tax/VAT		Taxes on vehicles	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	17,548*	693.89*	198	0.10
2.	Claims received during the year	22,356	961.85	348	1.07
3.	Refunds made during the year	10,388	371.76	399	1.09
4.	Balance outstanding at the end of the year	29,516	1,283.98	147	0.08

*The closing balance figures of last year were 19,545 cases involving ₹ 644 crore.

The TNVAT Act provides for payment of interest, at the rate of half *per cent* per month, if the excess amount is not refunded to the dealer within 90 days from the date of the order of assessment or revision of assessment. Due to slow pace of disposal of refund cases, Government may incur liability for payment of interest.

1.6 Response of the Departments/Government towards audit

The Accountant General (Economic and Revenue Sector Audit), Tamil Nadu (AG) 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 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 comply with the observations contained in the IRs, rectify the defects and omissions and report compliance through initial replies to the AG 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.

IRs issued up to 31 December 2014 disclosed that 24,978 paragraphs, involving ₹ 4,699.50 crore relating to 7,070 IRs, remained outstanding at the end of June 2015 as mentioned below along with the corresponding figures for the preceding two years in Tables 1.6 and 1.6.1.

Table 1.6
Details of pending IRs

	June 2013	June 2014	June 2015
Number of IRs pending for settlement	7,524	6,802	7,070
Number of outstanding audit observations	24,237	28,739	24,978
Amount of revenue involved (₹ in crore)	3,622.83	2,768.65	4,699.50

Source: As per data maintained in office of the AG(E&RSA)

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2015 and the amounts involved are mentioned in Table 1.6.1.

Table 1.6.1
Department-wise details of IRs

(₹ in crore)

Sl. No.	Name of the Department	Nature of receipts	Number of outstanding IRs	Number of outstanding Audit observations	Money value involved
1.	Commercial Taxes and Registration	Sales tax/Value added tax	2,298	13,804	1,437.80
		Stamp duty and registration fee	1,691	4,801	1,843.08
		Entry tax	167	299	5.90
		Entertainment tax	64	63	4.16
		Luxury tax	117	136	4.57
		Betting tax	11	22	0.09
2.	Revenue	Land revenue	1,280	2,921	421.53
		Urban land tax	223	576	42.21
		Taxes on agricultural income	61	136	81.01
3.	Home (Transport)	Taxes on vehicles	532	1,205	101.07
4.	Home (Prohibition and Excise)	State excise	231	313	78.63
5.	Industries	Mines and minerals	287	522	297.44
6.	Energy	Electricity tax	108	180	382.01
Total			7,070	24,978	4,699.50

Source: As per data maintained in office of the AG(E&RSA)

The large pendency of the IRs, due to non-receipt of the replies is indicative of failure by heads of offices and departments to initiate action to rectify defects, omissions and irregularities pointed out by the AG in the IRs.

1.6.2 Departmental Audit Committee Meetings

The Government set up Audit Committees (during various periods) to monitor and expedite the progress of the settlement of paragraphs in the IRs. Three meetings of Departmental Audit Committee were held with the Commercial Taxes, Registration and Energy Departments during the year 2014-15. As a follow-up of the meetings, 2,360 paragraphs involving ₹ 141.72 crore were settled.

1.6.3 Non-production of records to audit for scrutiny

The programme of local audit of commercial tax offices is prepared sufficiently in advance and intimated to the Department one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2014-15, 22,080 sales tax assessment records relating to 119 offices were not made available for audit. Of these, 138 assessments pertain to three special circles where assessments of major dealers are dealt with.

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

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

1.6.4 Response of the Departments to draft Audit Paragraphs

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

41 draft paragraphs (clubbed into 22 paragraphs, including one Performance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2015 were forwarded to the Principal Secretaries of the respective Departments between June and October 2015. However, replies to 33 draft paragraphs were not received (December 2015). These paragraphs have been included in the Report without the response of the Principal Secretary of the Department concerned.

1.6.5 Follow-up of 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) laid down in 1997 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 the action taken explanatory notes thereon should be submitted by the Government within two months of tabling the Report, for consideration of the Committee. In spite of these instructions, the explanatory notes on audit paragraphs of the Reports were being delayed inordinately. Reports of the Comptroller and Auditor General of India on the Revenue Receipts of the Government of Tamil Nadu containing 135 paragraphs (including Performance Audit) for the years ended 31 March 2008 to 2012 were placed before the State Legislative Assembly between May 2010 and August 2014. Explanatory notes in respect of 21 paragraphs were received between October 2012 and August 2015 with delays ranging from 9 to 32 months. The explanatory notes in respect of 114 paragraphs were not received from the Departments (December 2015). Review of the outstanding

action taken notes (ATNs) as of 31 March 2015 on paragraphs included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu indicated that the Departments had not submitted ATNs for 1,533 recommendations pertaining to audit paragraphs discussed by PAC. Out of the pending 1,533 recommendations, even the first ATN had not been received in respect of 991 recommendations, the earliest of which related to the Audit Report for the year 1986-87.

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 IRs / Audit Reports by the Departments / Government, the action taken on the paragraphs and Performance Audits included in the Audit Reports of the last 10 years for one Department is evaluated and included in this Audit Report.

The succeeding paragraphs 1.7.1 and 1.7.2 discuss the performance of the Chief Electrical Inspectorate of the Energy Department under revenue head '0043 – Taxes and Duties on Electricity' and cases detected in the course of local audit during the last 10 years and also the cases included in the Audit Reports for the years 2004-05 to 2013-14.

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to the Chief Electrical Inspectorate of the Energy Department during the last 10 years, paragraphs included in these reports and their status as on 31 March 2015 are tabulated in Table 1.7.1.

Table 1.7.1
Position of Inspection Reports

(₹ in crore)

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
2005-06	51	114	28.43	19	22	1.49	10	15	0.56	60	121	29.36
2006-07	60	121	29.36	11	11	4.67	6	8	0.18	65	124	33.85
2007-08	65	124	33.85	12	27	10.75	6	19	0.40	71	132	44.20
2008-09	71	132	44.20	6	17	0.14	10	20	4.86	67	129	39.48
2009-10	67	129	39.48	18	39	0.21	7	23	0.10	78	145	39.59
2010-11	78	145	39.59	16	34	224.53	6	29	0.02	88	150	264.10
2011-12	88	150	264.10	11	31	14.42	14	38	0.01	85	143	278.51
2012-13	85	143	278.51	12	31	81.71	3	7	0.62	94	167	359.60
2013-14	94	167	359.60	15	42	30.21	2	14	0.05	107	195	389.76
2014-15	107	195	389.76	12	33	6.49	5	26	7.75	114	202	388.50

The above table indicates that as against 114 paragraphs, which were pending at the beginning of 2005-06, the number at the end of 2014-15 had increased to 202. During the year 2014-15, one Audit Committee meeting was held with the Chief Electrical Inspectorate of the Energy Department and six paragraphs involving ₹ 6.83 lakh were settled.

1.7.2 Recovery of accepted cases

During the last 10 years, four draft paragraphs involving ₹ 306.22 crore were included in the Report of the Comptroller and Auditor General of India, Revenue Receipts, Government of Tamil Nadu. The Department accepted three audit observations involving ₹ 285.11 crore and recovered/adjusted ₹ 264.91 crore.

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 audit observations, nature/volume of transactions, etc. The annual audit plan is prepared on the basis of risk analysis which, *inter alia*, includes 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 2014-15, the audit universe comprised 1,610 auditable units, of which 484 units were planned and 507 units were audited during the year 2014-15 i.e., 31 *per cent* of the total auditable units. The details are shown in **Annexure-I**.

1.9 Results of audit

Position of local audit conducted during the year

The records of commercial taxes, state excise, motor vehicles tax, stamp duty and registration fee, electricity tax, mines and minerals and land revenue were test checked during 2014-15 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 803.32 crore were noticed in 3,951 cases. During the year, the Departments accepted under-assessment and other deficiencies in 570 cases involving ₹ 21.79 crore. Out of these, 195 cases involving ₹ 6.87 crore were pointed out in 2014-15 and 375 cases involving ₹ 14.92 crore pertained to objections raised in earlier years. The Departments collected ₹ 16.62 crore during 2014-15.

1.10 Coverage of this Report

This Report contains 22 paragraphs including one Performance Audit relating to non/short levy of taxes, royalty, interest, penalty and other audit observations involving financial effect of ₹ 175.90 crore. The Departments/Government accepted audit observations involving ₹ 113.51 crore; of which, ₹ 3.24 crore had been recovered/adjusted by the Departments. Reply in respect of the remaining cases has not been received (December 2015). These are discussed in succeeding Chapters II to IV.