

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 2015-16, 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

Table 1.1
Trend of revenue receipts

(₹ in crore)						
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1.	Revenue raised by the State Government					
	• Tax revenue	59,517.66	71,254.27	73,718.11	78,656.54	80,476.08
	• Non-tax revenue	5,683.57	6,554.26	9,343.27	8,350.60	8,918.31
	Total	65,201.23	77,808.53	83,061.38	87,007.14	89,394.39
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	12,714.60	14,519.69	15,852.76	16,824.03	20,353.86 ¹
	• Grants-in-aid	7,286.31	6,499.48	9,122.28	18,589.27	19,259.62
	Total	20,000.91	21,019.17	24,975.04	35,413.30	39,613.48
3.	Total revenue receipts of the State Government (1 + 2)	85,202.14	98,827.70	1,08,036.42	1,22,420.44	1,29,007.87
4.	Percentage of 1 to 3	77	79	77	71	69

Source: Finance Accounts of Government of Tamil Nadu

During the year 2015-16, the revenue raised by the State Government (₹ 89,394.39 crore) was 69 per cent of the total revenue receipts as against 71 per cent in the preceding year. The remaining 31 per cent of the receipts during 2015-16 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 2015-16. 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 2011-12 to 2015-16.

Table 1.2
Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Sales tax/VAT	33,393.95	36,288.90	44,007.69	44,041.13	52,826.74	53,532.17	65,202.06	57,190.80	68,874.57	57,522.03	(+) 0.58
2.	State Excise	8,935.23	9,975.21	11,473.97	12,125.68	14,469.87	5,034.91	6,483.04	5,731.18	7,296.67	5,836.02	(+) 1.83
3.	Stamp Duty and Registration Fee	5,856.07	6,580.78	8,466.94	7,645.40	9,874.22	8,251.25	10,470.18	8,362.33	10,385.29	8,721.45	(+) 4.29
4.	Taxes on Vehicles	3,033.11	3,101.09	4,141.11	3,928.43	4,881.15	3,683.58	5,147.14	3,828.95	4,882.54	4,233.39	(+) 10.56
5.	Land Revenue	70.82	87.21	80.02	131.31	112.38	272.83	171.57	170.54	203.41	257.53	(+) 51.01
6.	Taxes on immovable property other than agricultural land (urban land tax)	12.61	10.89	10.52	16.75	18.09	11.52	18.09	10.06	18.09	7.91	(-) 21.37
7.	Others ²	2,480.75	3,473.58	3,280.29	3,365.57	3,882.94	2,931.85	4,343.27	3,362.68	3,968.54	3,897.75	(+)15.91
	Total	53,782.54	59,517.66	71,460.54	71,254.27	86,065.39	73,718.11	91,835.35	78,656.54	95,629.11	80,476.08	

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variation in receipts.

Taxes on Vehicles: The increase was mainly due to huge increase in receipts under the “Tamil Nadu Motor Vehicles Taxation Act 1974”.

Land Revenue: The increase was mainly due to huge increase in receipts under “Recovery of Land Cess”.

² ‘Others’ represent tax receipts pertaining to heads other than those mentioned above.

1.1.3 The following table presents the details of non-tax revenue raised during the period from 2011-12 to 2015-16.

Table 1.3
Details of Non-tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2011-12		2012-13		2013-14		2014-15		2015-16		Percentage of increase (+) or decrease (-) in 2015-16 over 2014-15
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	1,678.33	2,056.89	1,786.87	2,053.88	1,548.98	3,422.77	2,240.28	2,588.83	2,750.67	3,093.50	(+) 19.49
2.	Crop Husbandry	99.03	125.32	127.25	125.85	120.04	213.77	93.16	150.00	145.06	44.93	(-) 70.05
3.	Forestry and Wildlife	121.33	105.86	158.57	93.94	98.65	193.87	44.86	141.30	143.02	85.52	(-) 39.48
4.	Non-Ferrous Mining and Metallurgical industries	647.44	943.83	850.96	927.19	1,078.64	933.28	1,094.08	976.59	1,191.80	981.12	(+) 0.46
5.	Education, Sports, Art and Culture	786.99	483.26	911.34	751.88	1,565.12	1,693.29	1,606.33	1,932.01	1,985.40	1,355.04	(-) 29.86
6.	Other receipts ³	1,511.45	1,968.41	2,197.62	2,601.52	2,353.66	2,886.29	3,005.27	2,561.87	2,855.55	3,358.20	(+)31.08
	Total	4,844.57	5,683.57	6,032.61	6,554.26	6,765.09	9,343.27	8,083.98	8,350.60	9,071.50	8,918.31	

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variation in receipts.

Interest receipts, dividends and profits: The increase was mainly due to increase under “interest on investment of Defined Contribution Schemes deposits for Government Servants” and increase in dividends and profits from “Power Finance Corporation”.

Crop Husbandry: The decrease was mainly due to huge decrease under “Distribution of Improved Seeds of Paddy and Millets”.

Forestry and Wildlife: The decrease was mainly due to huge decrease under Sandalwood and receipts from Farm Forestry.

Education, Sports, Art and Culture: The decrease was mainly due to decrease in receipts from Sarva Shiksha Abhiyan Scheme and receipts for payments of teachers in Government High School and Higher Secondary Schools under SSA.

³ ‘Other receipts’ represent non-tax receipts pertaining to heads other than those mentioned above.

1.2 Analysis of arrears of revenue

The arrears of revenue, as on 31 March 2016, on some principal heads of revenue amounted to ₹ 29,118.90 crore, of which ₹ 9,529.41 crore was outstanding for more than five years, as detailed in Table 1.4.

Table 1.4
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	Replies of Department
1.	Sales Tax / VAT	25,930.42	6,804.50	Recovery of ₹ 6,097.30 crore was being done through issue of Recovery Certificates through auction of property. Recovery of ₹ 5,258.34 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 14.24 crore. Recovery of ₹ 2,170.37 crore was held up due to rectification / review application. Collection of ₹ 526.24 crore was held up due to persons becoming insolvent. Amount of ₹ 636.23 crore was likely to be written off. Remaining arrears of ₹ 11,227.70 crore were at various stages of recovery.
2.	Stamp Duty and Registration Fee	334.96	246.19	Recovery of ₹ 334.90 crore was covered by Recovery Certificates and collection of ₹ 6 lakh was stayed by High Court and other judicial authorities.
3.	State Excise	34.97	34.97	Recovery of ₹ 16.26 crore was covered by Recovery Certificates. Recovery of ₹ 59.43 lakh was stayed by High Court and other judicial authorities. Recovery of ₹ 4.53 crore was covered by rectification / review application and persons becoming insolvent. Amount of ₹ 90.88 lakh was likely to be written off. Arrears of ₹ 12.68 crore were at various stages of collection.
4.	Taxes on vehicles	2.08	1.61	Demands of ₹ 1.67 crore were covered by Recovery Certificates. An amount of ₹ 21.83 lakh was stayed by High Court and other judicial authorities. Remaining arrears of ₹ 19.04 lakh were at various stages of collection.
5.	Non-Ferrous Mining and Metallurgical industries	2,683.11	2,323.05	Demands of ₹ 145.84 crore were covered by Recovery Certificates. Recovery of ₹ 1,540.87 crore was stayed by High Court and other judicial authorities. Recovery of ₹ 230.57 crore was stayed by Government. Recovery of ₹ 23.45 lakh was held up due to rectification / review application. Remaining arrears of ₹ 765.60 crore were at various stages of recovery.
6.	Electricity Taxes	133.36	119.09	Various stages of pendency of arrears were not furnished by the department.
	Total	29,118.90	9,529.41	

Source: Replies of concerned Departments

Recovery of arrears of ₹ 9,529.41 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 2016 was about one-third of the total revenue raised by the Government during the year 2015-16.

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 35,836 out of 1,06,810 cases was yet to be completed as on 31 March 2016. The details of pendency furnished by the Department indicate that 9,630 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 Department are given in Table 1.5.

Table 1.5

Evasion of Tax

Sl. No.	Head of revenue	Cases pending as on 31 March 2015	Cases detected during 2015-16	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 2016
					Number of cases	Amount of demand (₹ in crore)	
1.	Sales Tax / VAT	4,847	10,070	14,917	7,278	9,867.95	7,639
2.	Taxes on Vehicles	75	328	403	328	0.86	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 2015-16, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2015-16 as reported by the Departments are given in Table 1.6.

Table 1.6
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	29,516	1,283.98	147	0.08
2.	Claims received during the year	14,568	1,142.60	273	0.53
3.	Refunds made during the year	19,198	1,185.32	268	0.47
4.	Balance outstanding at the end of the year	24,886	1,241.26	152	0.14

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 referred to the heads of the Departments and the Government.

IRs issued up to 31 December 2015 disclosed that 28,599 paragraphs, involving ₹ 4,624.91 crore relating to 6,830 IRs, remained outstanding at the end of June 2016 as mentioned below along with the corresponding figures for the preceding two years in Tables 1.7 and 1.8.

Table 1.7
Details of pending IRs

	June 2014	June 2015	June 2016
Number of IRs pending for settlement	6,802	7,070	6,830
Number of outstanding audit observations	28,739	24,978	28,599
Amount of revenue involved (₹ in crore)	2,768.65	4,699.50	4,624.91

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

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2016 and the amounts involved are mentioned in Table 1.8.

Table 1.8
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	2,465	16,684	1,691.49
		Stamp duty and registration fee	1,720	5,304	1,800.12
		Entry tax	173	306	5.94
		Entertainment tax	65	67	4.16
		Luxury tax	129	158	4.60
		Betting tax	11	22	0.09
		Expenditure audit	13	31	0.02
2.	Revenue	Land revenue	1,047	3,368	319.52
		Urban land tax	158	328	19.61
		Taxes on agricultural income	61	134	80.99
3.	Home (Transport)	Taxes on vehicles	401	1,084	57.77
4.	Home (Prohibition and Excise)	State excise	237	386	82.10
5.	Industries	Mines and minerals	245	523	207.61
6.	Energy	Electricity tax	105	204	350.89
Total			6,830	28,599	4,624.91

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

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 through the IRs.

1.6.2 Departmental Audit Committee Meetings

The Government has set up Audit Committees (during various periods) to monitor and expedite the progress of the settlement of paragraphs in the IRs. Five meetings of Departmental Audit Committee were held with the Commercial Taxes, Registration, Industries and Energy Departments during the year 2015-16. As a follow-up of the meetings, 907 paragraphs involving ₹ 46.37 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 / offices one month before the commencement of local audit to enable them to keep relevant records ready for audit scrutiny.

During 2015-16, 17,309 sales tax assessment records relating to 138 offices were not made available for audit. Of these, 200 assessment records pertained to five 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 time barred, 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.

The non-production of assessment records is a serious lapse on the part of the executive authorities thereby defeating the very purpose of audit as it also hinders the discharge of duties of the Comptroller and Auditor General of India as enshrined in the Constitution.

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.

Forty one draft paragraphs (including one Performance Audit) proposed for inclusion in the Report of the Comptroller and Auditor General of India for the year ended March 2016 were forwarded to the Principal Secretaries of the respective Departments between May and October 2016. However, replies to 19 paragraphs were not received (February 2017). These paragraphs have been included in the Report without the response of the Principal Secretary of the Departments concerned. However, replies of Assessing Authorities have been included in the paragraphs.

1.6.5 Follow-up of Audit Reports

With a view to ensure 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. We observed that 207 paragraphs included in the Reports of the Comptroller and Auditor General of India on the Revenue Receipts of the Government of Tamil Nadu upto the year ended March 2015 were pending

discussion by PAC. Out of the above, the Departments have not furnished explanatory notes in respect of 175 paragraphs. Review of the outstanding action taken notes (ATNs) as of 31 January 2017 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 1,395 recommendations pertaining to audit paragraphs discussed by PAC. Out of the pending 1,395 recommendations, even the first ATN had not been received in respect of 965 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.

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to Industries Department relating to Mines and Minerals during the last 10 years, paragraphs included in these reports and their status as on 31 March 2016 are tabulated in Table 1.9.

Table 1.9

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
2006-07	258	756	300.53	26	93	1.37	5	57	1.87	279	792	300.03
2007-08	279	792	300.03	28	83	10.38	33	105	6.27	274	770	304.14
2008-09	274	770	304.14	27	66	9.62	30	181	7.89	271	655	305.87
2009-10	271	655	305.87	8	14	0.08	19	70	1.66	260	599	304.29
2010-11	260	599	304.29	15	33	6.39	9	40	0.24	266	592	310.43
2011-12	266	592	310.43	20	61	11.14	15	60	3.19	271	593	318.38
2012-13	271	593	318.38	33	102	8.09	26	58	3.37	278	637	323.10
2013-14	278	637	323.10	12	47	7.67	5	23	0.72	285	661	330.05
2014-15	285	661	330.05	18	56	8.14	19	81	0.88	284	636	337.31
2015-16	284	636	337.31	10	46	17.86	40	126	140.51	254	556	214.67

The above table indicates that as against 756 paragraphs, which were pending at the beginning of 2006-07, the number at the end of 2015-16 had come down to 556 indicating progress in settlement of old paras / IRs.

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 2015-16, the audit universe comprised 1,681 auditable units, of which 428 units were planned and 433 units were audited during the year 2015-16 i.e., 26 *per cent* of the total auditable units. The details are shown in **Annexure 1**.

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 2015-16 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 4,381.82 crore were noticed in 4,620 cases. During the year, the Departments accepted under-assessment and other deficiencies in 888 cases involving ₹ 33.37 crore. Out of these, 208 cases involving ₹ 8.70 crore were pointed out in 2015-16 and 680 cases involving ₹ 24.67 crore pertained to objections raised in earlier years. The Departments collected ₹ 16.50 crore during 2015-16.

1.10 Scope of this Report

This Report contains 27 paragraphs including one Performance Audit relating to non / short levy of taxes, royalty, interest, penalty and other audit observations involving financial effect of ₹ 4,107.31 crore. The Departments / Government accepted audit observations involving ₹ 53.85 crore; of which, ₹ 5.11 crore had been recovered / adjusted by the Departments. Reply in respect of cases involving ₹ 116.65 crore had not been received (February 2017). These are discussed in succeeding Chapters II to V.