

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 2016-17, 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	2012-13	2013-14	2014-15	2015-16	2016-17
1.	Revenue raised by the State Government					
	• Tax revenue	71,254.27	73,718.11	78,656.54	80,476.08	85,941.40
	• Non-tax revenue	6,554.26	9,343.27	8,350.60	8,918.31	9,913.76
	Total	77,808.53	83,061.38	87,007.14	89,394.39	95,855.16
2.	Receipts from the Government of India					
	• State's share of divisible Union taxes	14,519.69	15,852.76	16,824.03	20,353.86	24,537.77 ¹
	• Grants-in-aid	6,499.48	9,122.28	18,589.27	19,259.62	19,838.20
	Total	21,019.17	24,975.04	35,413.30	39,613.48	44,375.97
3.	Total revenue receipts of the State Government (1 + 2)	98,827.70	1,08,036.42	1,22,420.44	1,29,007.87	1,40,231.13
4.	Percentage of 1 to 3	79	77	71	69	68

Source: Finance Accounts of Government of Tamil Nadu

During the year 2016-17, the revenue raised by the State Government (₹ 95,855.16 crore) was 68 per cent of the total revenue receipts as against 69 per cent in the preceding year. The remaining 32 per cent of the receipts during 2016-17 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 2016-17. 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 2012-13 to 2016-17.

Table 1.2
Details of Tax revenue raised

(₹ in crore)

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over 2015-16
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Taxes on Sales, Trade, etc.	44,007.69	44,041.13	52,826.74	53,532.17	65,202.06	57,190.80	68,874.57	57,522.03	64,835.04	63,233.58	(+) 9.92
2.	State Excise	11,473.97	12,125.68	14,469.87	5,034.91	6,483.04	5,731.18	7,296.67	5,836.02	6,636.08	6,248.16	(+) 7.06
3.	Stamp Duty and Registration Fee	8,466.94	7,645.40	9,874.22	8,251.25	10,470.18	8,362.33	10,385.29	8,721.45	9,858.17	7,236.65	(-) 17.02
4.	Taxes on Vehicles	4,141.11	3,928.43	4,881.15	3,683.58	5,147.14	3,828.95	4,882.54	4,233.39	4,793.91	4,854.29	(+) 14.67
5.	Land Revenue	80.02	131.31	112.38	272.83	171.57	170.54	203.41	257.53	315.27	153.40	(-) 40.44
6.	Taxes on immovable property other than agricultural land (urban land tax)	10.52	16.75	18.09	11.52	18.09	10.06	18.09	7.91	18.09	10.20	(+) 28.95
7.	Others ²	3,280.29	3,365.57	3,882.94	2,931.85	4,343.27	3,362.68	3,968.54	3,897.75	4,235.30	4,205.12	(+) 7.89
	Total	71,460.54	71,254.27	86,065.39	73,718.11	91,835.35	78,656.54	95,629.11	80,476.08	90,691.86	85,941.40	

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variations in receipts.

Stamp Duty and Registration Fee: The decrease was mainly due to decrease in receipts on adhesive revenue stamps, receipts from unstamped, insufficiently stamped documents and fees for registering documents.

Taxes on Vehicles: The increase was mainly due to increase of fees for registration of Licences, badges, permits and fitness certificates.

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 2012-13 to 2016-17.

Table 1.3
Details of Non-tax revenue raised

Sl. No.	Head of revenue	2012-13		2013-14		2014-15		2015-16		2016-17		Percentage of increase (+) or decrease (-) in 2016-17 over 2015-16
		Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	
1.	Interest receipts, dividends and profits	1,786.87	2,053.88	1,548.98	3,422.77	2,240.28	2,588.83	2,750.67	3,093.50	2,874.85	4,503.90	(+) 45.59
2.	Crop Husbandry	127.25	125.85	120.04	213.77	93.16	150.00	145.06	44.93	128.46	56.94	(+) 26.73
3.	Forestry and Wildlife	158.57	93.94	98.65	193.87	44.86	141.30	143.02	85.52	158.59	34.22	(-) 59.99
4.	Non-Ferrous Mining and Metallurgical industries	850.96	927.19	1,078.64	933.28	1,094.08	976.59	1,191.80	981.12	1,180.99	983.90	(+) 0.28
5.	Education, Sports, Art and culture	911.34	751.88	1,565.12	1,693.29	1,606.33	1,932.01	1,985.40	1,355.04	2,404.56	1,195.23	(-) 11.79
6.	Other receipts ³	2,197.62	2,601.52	2,353.66	2,886.29	3,005.27	2,561.87	2,855.55	3,358.20	2,976.50	3,133.57	(-) 6.69
	Total	6,032.61	6,554.26	6,765.09	9,343.27	8,083.98	8,350.60	9,071.50	8,918.31	9,723.95	9,913.76	

Source: Finance Accounts of Government of Tamil Nadu

The following are the reasons for variations in receipts.

Interests receipts, dividends and profits: The overall increase in revenue was mainly due to huge increase of interest on Ways and Means Advances to Statutory Corporations, Boards and Government Companies.

Crop Husbandry: The overall increase in revenue was due to huge increase in receipts under Integrated Coconut Development

Forestry and Wildlife: The overall decrease in revenue was mainly due to decrease under receipts from Farm Forestry, Rent on Buildings and from Mines and Minerals.

Education, Sports, Art and Culture: The overall decrease in revenue was mainly due to decrease under Reimbursement of expenditure under the Rashtriya Madhayamik Shiksha Abhiyan (RMSA).

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 2017, on some principal heads of revenue amounted to ₹ 31,048.57 crore, of which ₹ 13,303.19 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 2017	Amount outstanding for more than five years as on 31 March 2017	Replies of Department
1.	Taxes on Sales, Trade, etc.	27,320.65	10,009.41	Recovery of ₹ 5,597.81 crore was being done through issue of Recovery Certificates through auction of property. Recovery of ₹ 7,928.11 crore was stayed by High Court and other judicial authorities. Government stayed the collection of ₹ 18.08 crore. Recovery of ₹ 2,436.99 crore was held up due to rectification/review application. Collection of ₹ 563.24 crore was held up due to persons becoming insolvent. Amount of ₹ 585.88 crore was likely to be written off. Remaining arrears of ₹ 10,190.54 crore were at various stages of recovery.
2.	Stamp Duty and Registration Fee	365.48	299.46	Recovery of ₹ 365.42 crore was covered by Recovery Certificates and collection of ₹ 6 lakh was stayed by High Court and other judicial authorities.
3.	State Excise	34.68	34.68	Recovery of ₹ 14.94 crore was covered by Recovery Certificates. Recovery of ₹ 62.97 lakh was stayed by High Court and other judicial authorities. Recovery of ₹ 4.14 crore was covered by rectification/review application and persons becoming insolvent. Amount of ₹ 90.88 lakh was likely to be written off. Arrears of ₹ 13.77 crore were at various stages of collection. ₹ 29 lakh was since collected.
4.	Taxes on vehicles	2.06	00.00	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 ₹ 17.01 lakh were at various stages of collection.
5.	Non-Ferrous Mining and Metallurgical industries	2,770.25	2,461.66	Demands of ₹ 131.73 crore were covered by Recovery Certificates. Recovery of ₹ 1,597.35 crore was stayed by High Court and other judicial authorities. Recovery of ₹ 10.41 crore was stayed by Government. Recovery of ₹ 5.66 crore was held up due to rectification/review application. Remaining arrears of ₹ 1025.09 crore were at various stages of recovery.
6.	Electricity Taxes	555.45	497.98	Demands of ₹ 67.12 crore were covered by Recovery Certificates. Recovery of ₹ 459.67 crore was stayed by High Court and other judicial authorities. Remaining arrears of ₹ 28.66 crore was being collected in instalments.
	Total	31,048.57	13,303.19	

Source: Replies of concerned Departments

The table indicates that 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 2017 was about one-third of the total revenue raised by the Government during the year 2016-17.

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 30,350 out of 1,06,810 cases was yet to be completed as on 31 March 2017, the details of which are mentioned in **Annexure 1**. The details of pendency furnished by the Department indicate that 7,755 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 2016	Cases detected during 2016-17	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 2017
					Number of cases	Amount of demand (₹ in crore)	
1.	Sales Tax / VAT	7,639	10,304	17,943	8,898	2,444.56	9,045
2.	Taxes on Vehicles	75	259	334	259	0.30	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 2016-17, claims received during the year, refunds allowed during the year and cases pending at the close of the year 2016-17 as reported by the Departments are given in Table 1.6.

Table 1.6
Details of pendency of refund cases

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	24,886	1,241.26	152	0.14
2.	Claims received during the year	16,372	97.59	320	0.71
3.	Refunds made during the year	15,449	741.55	441	0.77
4.	Balance outstanding at the end of the year	25,809	597.30	31	0.09

(₹ in 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 referred to the heads of the Departments and the Government.

IRs issued upto 31 December 2016 disclosed that 29,696 paragraphs involving money value of ₹ 5,792.97 crore relating to 5,692 IRs, remained outstanding at the end of June 2017 as mentioned below along with the corresponding figures for the preceding two years in Table 1.7.

Table 1.7
Details of pending IRs

	June 2015	June 2016	June 2017
Number of IRs pending settlement	7,070	6,830	5,692
Number of outstanding audit observations	24,978	28,599	29,696
Amount of revenue involved (₹ in crore)	4,699.50	4,624.91	5,792.97

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

1.6.1 The Department-wise details of the IRs and audit observations outstanding as on 30 June 2017 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	Taxes on Sales, Trade, etc.	1,300	17,278	3,000.66
		Stamp duty and registration fee	1,781	5,697	1,823.86
		Entry tax	173	306	5.94
		Entertainment tax	78	80	4.16
		Luxury tax	128	157	4.60
		Betting tax	11	22	0.09
		Expenditure audit	13	46	0.03
2.	Revenue	Land revenue	1,099	3,626	316.63
		Urban land tax	130	282	20.54
3.	Home (Transport)	Taxes on vehicles	413	1,119	51.64
4.	Home (Prohibition and Excise)	State excise	223	374	30.06
5.	Industries	Mines and minerals	235	494	210.99
6.	Energy	Electricity tax	108	215	323.77
Total			5,692	29,696	5,792.97

Source: As per data maintained in office of the AG(E&RSA), Tamil Nadu, 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 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 2016-17, 1,29,572 sales tax assessment records were called for in 162 offices, out of which 17,811 records in 106 offices were not made available for audit. Of these, 114 assessment records pertained to six 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.

1.6.3 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 Departments, drawing their attention to audit findings and requesting them to send their response within six weeks. The status of receipt / non-receipt of replies from the Departments is indicated at the end of each such paragraph included in the Audit Report.

Thirty nine 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 2017 were forwarded to the Principal Secretaries of the respective Departments between June and October 2017. However, replies to 27 paragraphs were not received (January 2018). 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.

1.6.4 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 231 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 2016 were pending discussion by PAC. Out of the above, the Departments have not furnished explanatory notes in respect of 194 paragraphs. Review of the outstanding action taken notes (ATNs) as of 31 March 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 1,622 recommendations pertaining to audit paragraphs discussed by PAC. Out of the pending 1,622 recommendations, even the first ATN had not been received in respect of 1,057 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 the Audit Report. For the current Audit Report, the Home (Transport) Department was taken up for analysis.

1.7.1 Position of Inspection Reports

The summarised position of the IRs issued to Home (Transport) Department relating to Motor Vehicles Tax during the last 10 years, paragraphs included in these reports and their status as on 31 March 2017 are tabulated in Table 1.9.

Table 1.9
Position of Inspection Reports

(₹ in crore)

Year	Opening Balance			Additions			Total			Clearance			Closing Balance		
	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value	IRs	Paras	Money Value
2007-08	367	901	73.28	48	131	7.37	415	1,032	80.65	5	8	2.33	410	1,024	78.32
2008-09	410	1,024	78.32	46	126	7.38	456	1,150	85.70	7	9	2.85	449	1,141	82.85
2009-10	449	1,141	82.85	32	94	7.79	481	1,235	90.64	10	14	3.01	471	1,221	87.63
2010-11	471	1,221	87.63	32	107	8.05	503	1,328	95.68	56	350	4.75	447	978	90.93
2011-12	447	978	90.93	30	126	4.05	477	1,104	94.98	60	141	0.75	417	963	94.23
2012-13	417	963	94.23	49	139	0.57	466	1,102	94.80	9	73	0.53	457	1,029	94.27
2013-14	457	1,029	94.27	42	249	6.17	499	1,278	100.44	2	111	0.66	497	1,167	99.78
2014-15	497	1,167	99.78	41	232	2.58	538	1,399	102.36	5	158	0.95	533	1,241	101.41
2015-16	533	1,241	101.41	46	369	13.18	579	1,610	114.59	163	484	54.81	416	1,126	59.78
2016-17	416	1,126	59.78	45	214	8.01	461	1,340	67.79	53	306	18.31	408	1,034	49.48

The above table indicates that there was considerable progress in settlement of outstanding inspection reports and paragraphs during the years 2014-15 to 2016-17. However, the pendency of paragraphs has increased over the ten year period and as against 901 paragraphs, which were pending at the beginning of 2007-08, the number at the end of 2016-17 had increased to 1,034 paragraphs. The Department may take steps for early clearance of the paragraphs.

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 2016-17, the audit universe comprised 1,558 auditable units, of which 430 units (27.59 per cent) were planned, and all the planned units were audited. The details are shown in **Annexure 2**.

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 2016-17 and under-assessment, short levy, loss of revenue and other observations amounting to ₹ 6,470.97 crore were noticed in 4,560 cases, out of which, the Departments accepted 220 cases involving ₹ 2.53 crore. During the year 2016-17, the Departments also accepted under-assessment and other deficiencies in 663 cases involving ₹ 31.08 crore, which were pointed out in earlier years. The departments recovered ₹ 17.20 crore during 2016-17.

1.10 Scope of this Report

This Report contains 20 paragraphs including one Performance Audit relating to non/short levy of taxes, stamp duty, registration fee, interest, penalty and other audit observations involving financial effect of ₹ 4,769.56 crore. The Departments / Government accepted audit observations involving ₹ 7.59 crore; of which ₹ 2.35 crore was recovered. These are discussed in succeeding Chapters II to V.