

CHAPTER I GENERAL

1.1 Revenue Receipts

1.1.1 The tax and non-tax revenue raised by the Government of Telangana, the State's share of net proceeds of divisible Union taxes and duties assigned to the State and Grants-in-aid received from the Government of India during the period from 1 April 2015 to 31 March 2016 are detailed in **Table 1.1.1**.

**Table 1.1.1
Revenue Receipts**

(₹ in crore)			
Sl. No.	Particulars	2 June 2014 to 31 March 2015	2015-16 ¹
1.	Revenue raised by the State Government		
	• Tax Revenue	29,288.30	39,974.63
	• Non-tax Revenue	6,446.82	14,414.36
	Total	35,735.12	54,388.99
2.	Receipts from the Government of India		
	• Share of Net Proceeds of Divisible Union Taxes and Duties	8,188.58	12,350.72
	• Grants-in-Aid	7,118.10	9,394.12
	Total	15,306.68	21,744.84
3.	Total revenue receipts of the State Government (1 and 2)	51,041.80	76,133.83
4.	Percentage of 1 to 3	70	71

The revenue raised by the State Government (₹ 54,388.99 crore) was 71 per cent of the total revenue receipts. The remaining 29 per cent of the receipts during the period was from the Government of India.

1.1.2 The details of the Tax Revenue raised during the period 1 April 2015 to 31 March 2016 are given in **Table 1.1.2**.

**Table 1.1.2
Details of Tax Revenue Raised**

(₹ in crore)					
Sl. No.	Head of Revenue	2 June 2014 to 31 March 2015		2015-16 ²	
		Budget Estimates	Actuals	Budget Estimates	Actuals
1.	Taxes on Sales, Trade etc.	26,963.30	22,120.78	35,463.39	29,846.91
2.	State Excise	2,823.54	2,807.69	3,916.43	3,809.07
3.	Stamp Duty and Registration Fees	2,583.88	2,176.90	3,700.00	3,102.23
4.	Taxes on Vehicles	2,226.86	1,617.66	2,500.00	2,309.13
5.	Land Revenue	72.89	9.25	13.46	103.71
6.	Others	10,457.13	556.02	901.46	803.58
	Total	45,127.60	29,288.30	46,494.74	39,974.63

¹ For details please see Statement No.14-Detailed Accounts of Revenue by Minor Heads in the Finance Accounts of Telangana 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.

² Source: *Statement 14 of Finance Accounts*.

It may be seen from the above that there is large variation between Budget Estimates and Actuals indicating that the departments have not achieved the targeted revenue during the year. The reasons for variations between Budget Estimates and Actuals were not furnished by the Departments.

1.1.3 The details of the Non-tax Revenue raised during the period 1 April 2015 to 31 March 2016 are given in **Table 1.1.3**.

Table 1.1.3
Details of Non-tax Revenue Raised

(₹ in crore)

Sl. No.	Head of Revenue	2 June 2014 to 31 March 2015		2015-16 ³	
		Budget Estimates	Actuals	Budget Estimates	Actuals
1.	Interest Receipts	2,638.20	2,766.01	2,793.95	2,877.54
2.	Mines and Minerals	1,877.52	1,719.29	3,300.00	2,212.51
3.	Education, Sports, Art and Culture	826.72	411.57	841.72	184.00
4.	Others	7,899.58	1,549.95	15,477.60	9,140.31
	Total	13,242.02	6,446.82	22,413.27	14,414.36

1.2 Analysis of Arrears of Revenue

The arrears of revenue, as on 31 March 2016 in respect of some principal heads of revenue amounted to ₹ 2,303.95 crore, as reported by the respective Departments, are 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 2016	Amount outstanding for more than five years as on 31 March 2016
1.	State Excise	39.79	39.79
2.	Taxes on Vehicles	91.42	44.59
3.	Stamp Duty and Registration Fees	55.06	Not furnished by the Department
4.	Mines and Minerals	121.81	93.44
5.	Taxes and Duties on Electricity	1,995.87	1,158.78
	Total	2,303.95	

Source : Information furnished by the Departments concerned.

The Department of Mines and Minerals attributed the reasons for accumulation of arrears to recoveries pending under Revenue Recovery Act, cases pending in Supreme Court, etc. The Department of Energy intimated that reasons for arrears under Taxes and Duties on Electricity were pendency of cases in courts, duties payable on account of bifurcation of combined State of Andhra Pradesh etc. Other Departments did not furnish any reasons for accumulation of arrears.

³ Source: Statement 14 of Finance Accounts.

1.3 Arrears in Assessments

As per the provisions of the Telangana VAT Act⁴, 2005, annual assessments are not mandatory for the VAT dealers. Assessments under the CST Act are to be completed within four years. However, no information was furnished by the Commercial Taxes Department on arrears of CST assessments.

1.4 Evasion of Tax detected by the Departments

The details of cases of evasion of tax detected by the Departments, cases finalised, demands for additional tax raised and cases pending for finalisation as on 31 March 2016 in respect of different heads of revenue were called for from the Departments concerned.

The cases of evasion of VAT, as furnished by Commercial Taxes Department, are as follows:

(₹ in crore)

Cases pending as on 31 March 2015	Cases detected during 2015-16	Total	Number of cases in which assessments / investigations completed and additional demand including penalty raised				No. of cases pending finalisation as on 31 March 2016
			No. of cases	Amount of demand			
				Tax	Penalty	Total	
211	356	567	325	110.77	4.04	114.81	242

State Excise, Transport and Energy Departments have reported that there were no cases of evasion of tax during the year. The Departments of Industries and Commerce and Land Revenue, however, did not furnish the information on tax evasion cases detected by the Department.

1.5 Pendency of Refund Cases

The claims outstanding at the beginning of the year as on 1 April 2015, claims received during the period till 31 March 2016, refunds made during the period and the cases pending as on 31 March 2016, 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	Commercial Taxes		Transport	
		No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year as on 1 April 2015	Nil	Nil	Nil	Nil
2.	Claims received during the year	250	304.40	105	0.69
3.	Refunds made during the year	250	304.40	105	0.69
4.	Cases pending as on 31 March 2016	Nil	Nil	Nil	Nil

⁴ Changed from APVAT Act to Telangana VAT Act vide G.O.Ms.No.32 Revenue (CT-II) Department, dated 15 October 2014.

Land Revenue and State Excise Departments stated that there were no cases of refunds during the year. Other Departments did not furnish the details though called for.

1.6 Response of the Government / Departments towards Audit

The Accountant General (E & RSA), Andhra Pradesh and Telangana (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 offices inspected with copies to the next higher authorities for taking prompt corrective action. The heads of 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 Departments and the Government.

Inspection reports issued upto December 2015 disclosed that 16,852 paragraphs involving ₹ 7,530.03 crore relating to 4,222 IRs remained outstanding at the end of June 2016 as indicated in **Table 1.6**.

Table 1.6
Details of Pending Inspection Reports

	June 2015	June 2016
Number of IRs pending settlement	4,193	4,222
Number of outstanding audit observations	15,115	16,852
Amount of revenue involved (₹ in crore)	6,465.16	7,530.03

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 the **Table 1.6.1**.

Table 1.6.1
Department-wise Details of IRs

(₹ in crore)

Sl. No.	Name of the Department	Nature of Receipt	Number of outstanding Inspection Reports	Number of outstanding Audit Observations	Money Value Involved
1.	Revenue Department	Taxes on Sales, Trade etc.	1,851	8,637	2,624.83
		State Excise	258	690	37.20
		Land Revenue	666	1,723	1,565.96
		Stamp Duty and Registration Fees	1,083	4,085	180.00
		Endowments	41	374	Nil
2.	Transport, Roads and Buildings	Taxes on Motor Vehicles	205	885	1,678.24
3.	Industries and Commerce	Mines and Minerals	92	414	986.75
4.	Energy	Taxes and Duties on Electricity	26	44	457.05
Total			4,222	16,852	7,530.03

Audit did not receive even the first replies from the heads of offices within one month from the date of issue of the IRs in respect of 128 IRs issued during 2015-16. Pendency of the IRs 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 putting in place 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, no Audit Committee Meetings (ACMs) were held. This is indicative of the fact that the Departments did not utilise the Audit Committees set up to clear outstanding audit observations.

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, Assessment Files, Demand Collection and Balance Registers, Annual Accounts of Assesses, Retail Liquor Shop Licence Files, Village Accounts, Jamabandi Files, Mandal Chitta, Stores and Stock Register and other relevant records were not made available to Audit, as 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	50
	Excise and Prohibition	9
	Stamps and Registration	3
	Land Revenue	21
Industries and Commerce	Mines and Geology	1
Total		84

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 concerned Departments, 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.

Sixty eight draft paragraphs, including one Performance Audit and a 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 draft paragraphs and Follow-up Audit and the same have been included in this Report without the response of the Departments / Government. The replies received during Exit Conference of Performance Audit have been incorporated in the Report.

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 eighty one 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, 74 paragraphs pertain exclusively to Telangana whereas 107 paragraphs pertain to both Andhra Pradesh and Telangana. The explanatory notes from the Departments concerned of Telangana on these paragraphs were received in respect of only 20 paragraphs pertaining to Telangana with delays ranging from 2 to 38 months. Explanatory notes in respect of 161 paragraphs from 12 Departments (Commercial Taxes, Excise, Land Revenue, Transport, Registration, Industries & Commerce, Forests, Co-operation, Municipal

Administration, General Administration, Endowments and Energy) have not been received for 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 by the Departments, the action taken on the paragraphs of one Department is evaluated and included in this Audit Report.

The paragraph discusses the performance of the Land Revenue Department under revenue head 'Taxes on Land Revenue' and cases detected during the course of local audit for the last six years. These cases relate only to the 10 districts of the successor State of Telangana.

The summarised position of the Inspection Reports relating to Land Revenue Department, issued during the last Six years, paragraphs included in these reports and their status as on 31 March 2016 are given in **Table 1.7**.

Table 1.7
Position of Inspection Reports

(₹ in crore)

Sl. No.	Year	Opening Balance			Addition 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.	2010-11	1,530	3,411	891.62	112	390	1,019.63	63	315	0.05	1,579	3,486	1,911.20
2.	2011-12	1,579	3,486	1,911.20	104	499	66.76	252	800	0.36	1,431	3,185	1,977.60
3.	2012-13	1,431	3,185	1,977.60	11	50	0	359	899	1.53	1,083	2,336	1,976.07
4.	2013-14	1,083	2,336	1,976.07	26	203	0.97	343	852	147.55	766	1,687	1,829.49
5.	2014-15	766	1,687	1,829.49	21	168	4.01	0	0	0	787	1,855	1,833.50
6.	2015-16	787	1,855	1,833.50	29	247	717.06	138	287	980.24	678	1,815	1,570.32

The Government arranges Audit Committee meetings between the Department and AG's office to settle the old paragraphs. As would be evident from the above table, against 1,530 outstanding IRs with 3,411 paragraphs as at the beginning of 2010-11, the number of outstanding IRs decreased to 678 with 1,815 paragraphs at the end of 2015-16.

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*, includes critical issues in 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 934 auditable units of which 354 units were planned and 341 units were audited during the year 2015-16, which is 96 *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 341 units of Value Added Tax, State Excise, Motor Vehicles, Land Revenue, Stamp Duty and Registration Fee etc. conducted during the year 2015-16 showed under-assessment / short levy / loss of revenue aggregating ₹ 1,248.72 crore in 1,598 cases. During the course of the year, the Departments concerned accepted under-assessments and other deficiencies of ₹ 7.15 crore in 161 cases, which were pointed out in audit during 2015-16. The Departments collected ₹ 3.50 crore in 77 cases during 2015-16, pertaining to the audit findings of previous years.

1.9.2 Coverage of this Report

This Report contains 37 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 ₹ 122.83 crore and a Follow-up Audit on Implementation of recommendations on functioning of the 'Prohibition and Excise Department' published as standalone Audit Report during the year 2011-12.

The Departments / Government have accepted audit observations involving ₹ 6.85 crore out of which ₹ 0.03 crore had been recovered. The replies in the remaining cases have not been received (December 2016). These are discussed in succeeding Chapters.